

## **Historic, Archive Document**

Do not assume content reflects current scientific knowledge, policies, or practices.



2407755  
.A376

---

# Agricultural Outlook Forum 2001

---



## Speech Booklet 5

Friday, February 23

For release 7:00 a.m., February 23

USDA  
NATIONAL AGRICULTURAL LIBRARY  
2000 JUN 13 P 2:31  
COMMUNICATIONS RECORDS  
700

### 8:15 GRAINS AND OILSEEDS OUTLOOK

#### Grains and Oilseeds for 2001

Philip W. Sronce, Director, Grains and Oilseeds Analysis Group, Farm Service Agency, USDA

### 8:15 EMERGING WATER QUALITY ISSUES: NEW TECHNOLOGY, POLICIES, APPROACHES

#### Addressing Water Quality in Agriculture: Institutional Aspects and Prospects

Lawrence W. Libby, C. William Swank Professor of Rural-Urban Policy, The Ohio State University

### 10:30 SUGAR AND SWEETENERS: FUTURE SUGAR POLICY NEEDS FOR THE DOMESTIC INDUSTRY

#### Moderator

#### 2001/02 U.S. sugar Supply and Use

John M. Love, Agricultural Economist, USDA World Agricultural Outlook Board

#### Sugar Policy Needs of Florida Cane Growers and Processors

Luis J. Fernandez, Chief Financial Officer, Florida Crystals Corp.

#### Future Sugar Policy Needs for the Domestic Industry

Richard McKamey, Chairman, Legislative Committee, American Sugarbeet Growers Association

### 12:45 GRAINS AND OILSEEDS LUNCHEON

#### Grains and Oilseeds: A European Perspective

Klaus D. Schumacher, Head of Economics Department, Toepfer International

### 12:45 SUGAR AND SWEETENERS LUNCHEON

#### Future Sugar Policy Needs – A View from the Trade

Frank Jenkins, President Jenkins Sugar Group, Inc.

### 2:15 HOW WILL RURAL AMERICA, AGRIBUSINESS, AND GOVERNMENT ADAPT TO STRUCTURAL CHANGE?

#### Implications for Government Programs

Dr. Marc A. Johnson, Kansas State University

GRAINS AND OILSEEDS OUTLOOK FOR 2001<sup>1</sup>

Philip W. Sronce, Director  
Feed Grains and Oilseeds Analysis Group  
Farm Service Agency  
U.S. Department of Agriculture

**Introduction**

Fertilizer costs, market price relationships to loan rates, limited availability of quality soybean seed, China trade, production in export competitor countries, interest rates, the Bioenergy Program, and Government payments are hot issues swirling in agricultural circles as we grapple with the U.S. grains and oilseeds outlook for the 2001. This paper will focus on the supply, demand, and market price outlook for wheat, corn, and the soybean complex taking into account the factors listed above. A key factor critical to the outlook for wheat, corn, and soybeans is China. We have assumed in our outlook that China is not a member of the World Trade Organization (WTO).

Wheat and corn ending stocks for the 2001/02 marketing year are forecast to decrease 14 and 13 percent, respectively, compared with the 2000/01 estimates. Thus, wheat and corn market prices are projected to improve about 8 percent, averaging around \$2.85 per bushel for wheat and \$1.95 for corn. Conversely, despite expectations of record usage, soybean ending stocks are forecast at 475 million bushels, an increase of 38 percent, and soybean prices are projected to average around \$4.25 per bushel or \$0.40 below the 2000/01 level.

**Planted Acreage Outlook for 2001**

Table 1 shows wheat, corn, and soybean planted acreage for crop years 1996-2000 and projections for 2001. The table shows the significant acreage shift between the three commodities since the 1996 Farm Act took affect. Soybean acreage has increased from the 1996 level of 64.2 million acres to a record 74.5 million acres in 2000, while wheat area decreased from 75.1 million acres to 62.5 million acres. Corn acreage has been relatively stable without a discernable trend, ranging between 77.4 million acres to 80.2 million acres and averaging 36 percent of total area planted to wheat, corn, and soybeans over the period.

Table 2 compares wheat, corn, and soybean net returns. Since 1999, net returns for wheat and corn have eroded compared with soybeans, largely, because loan benefits have kept soybean producer net returns from decreasing despite lower market prices.

The corn 2001 planted acreage forecast at 78.0 million acres is 1.6 million acres less than for the 2000 crop. Many analysts believe that nearly ideal planting conditions were responsible for up to one-half of the 2.2 million acre increase in corn plantings in 2000. Assuming normal weather, much of these

---

<sup>1</sup>The author gratefully acknowledges contributions by analysts from the World Agricultural Outlook Board, the Economic Research Service, the Foreign Agricultural Service, and the Farm Service Agency.

“extra acres” likely will not be planted to corn this spring. Attractive soybean loan rates and lower fertilizer requirements for other crops account for the rest of the expected decline in corn plantings.

Less fall planted wheat, higher fertilizer prices, planting flexibility, and the benefits of the soybean marketing loan program are expected to provide incentives to further expand soybean plantings in 2001 at the expense of corn and wheat. Mitigating factors to the soybean acreage expansion are the limited availability of quality seed and the longer term benefits of maintaining crop rotations (i.e., pest, disease, and weed control).

Winter wheat plantings decreased by 2 million acres from last year to the lowest level since 1971 as prolonged extremely dry conditions, followed by cold, wet weather kept some producers from planting in the Plains. Also, weak prices and a wet fall dropped soft red plantings. Higher spring wheat acres will offset some of the drop in winter wheat, but total wheat planted area is expected to be the smallest since 59.3 million in 1973.

### **Wheat Supply, Demand, and Price Outlook for 2001/02 (Table 3)**

**Wheat Supplies:** While there remain many questions about the number of spring wheat acres, there is also more uncertainty about harvested acres of winter wheat. Table 3 shows a forecast harvested area of 52.5 million, the lowest since 1972. The harvested area is forecast using an “adjusted” 5-year average harvested-to-planted ratio. The calculated 2001 harvested area based on the 5-year average is reduced 0.5 million acres because of the late plantings and emergence and currently poor condition of some of the wheat in the Southern Plains as well as the pending decisions regarding the profitability to top dress fertilizer this spring. Assuming an average wheat yield of 40.5 bushels per acre, based on the average of 1996-2000 yields by State, results in production of 2,125 million bushels, down 98 million from last year. The lower production combined with lower beginning stocks results in 2001/02 supplies down a little more than 200 million bushels from a year earlier.

**Wheat Domestic Demand:** Food use will likely increase about 1 percent. This change is commensurate with population growth and the average annual percentage change in food use since 1990. Feed and residual is expected to be 275 million bushels, down 25 million bushels from the 2000/01 level because of lower supplies. On balance, domestic use is expected to decrease 11 million bushels.

**Wheat Export Demand:** U.S. exports are expected to fall in 2001/02 to 1,025 million bushels. Weaker global imports are expected and the U.S. will continue to face stiff competition.

The biggest factor that will drive down import needs is the recovery of production in the Middle East/North African region where severe drought slashed wheat production in the previous 2 years. Although the recovery is spotty, with some pockets of concern remaining, overall production gains are expected to be sufficient enough to reduce import needs. Iran, for example, the world’s second largest importer over the previous 2 years, could reduce imports 2 to 3 million tons. Some recovery in wheat production is also likely in Eastern Europe, after drought cut the region’s crops in 2000. However, the expected recovery will be mixed because much of the Southern Balkans remains drier than normal.

China is forecast to provide some offset in global demand as its wheat imports are forecast to increase. The big question is “how much will they import?”. Some analysts are expecting 7 million tons or more. We have assumed China will import 3 million tons. China had a poor crop in 2000 and there are numerous reports that winter wheat seedings are down for the 2001 crop. Growing conditions to date have been favorable and yields should rebound. However, an increasing portion of the land is being

planted to lower yielding, higher quality varieties. But the biggest unknowns are how much wheat stocks China has and what is the condition of the stocks. No one knows!

Among the exporters, Australia is likely to increase exports the most in 2001/02 because of large exportable supplies. ABARE recently reported that the 2000 crop was much larger than expected plus another large crop is expected in 2001. Export prospects for Canada and Argentina are fairly steady. However, the EU could show a marked drop due to a smaller crop. Prolonged wet conditions have cut winter wheat seeding in France, the UK, Germany, and Spain. Among the smaller exporters, India is expected to continue exports even with lower production prospects due to large stocks. However, Pakistan's unusual exports of 2000/01 are expected to end, as dry conditions have cut production prospects sharply from the record levels in 2000.

Wheat Ending Stocks and Market Prices: Total use in 2001/02 is expected to drop 4 percent, but supplies are down more, so ending stocks, at 721 million bushels, are the lowest since 1996/97. Thus, market prices are expected to average about \$2.85 per bushel, up from \$2.65 in 2000/01.

The crucial question for the wheat market price outlook is "will this be the year that the world wheat market tightens up enough to push up prices?". A significant decline in stocks in the last two years increased the market's vulnerability to shocks, but production problems around the globe were too limited to strengthen prices. The 2001/02 trade year will open with relatively low carryin stocks, and the outlook is for some decline in world wheat area. However, the overpowering questions are "how tight are wheat supplies in China?" and "how much will the country need to import?".

#### **Corn Supply, Demand, and Price Outlook for 2001/02 (Table 4)**

Corn Supplies: Corn harvested acreage for grain is forecast at 71.2 million acres based on the average harvested-to-planted ratio for crop years 1997, 1999, and 2000. The harvested-to-planted ratio in 1998 was unusually low due to drought-related abandonment and, therefore, excluded from the calculation. The trend yield based on crop years 1960-2000 is 135.9 bushels per acre, below last year's yield of 137.1 and the 1994 record of 138.6. Thus, corn production is forecast at 9,675 million bushels and total supplies are forecast at 11,576 million bushels, 1 percent below the previous year's supplies.

Concerns at this time center around input costs and fertilizer availability rather than weather. The weather focus will increase as we approach and progress through planting season. The number one issue for corn in 2001 is how growers will deal with higher nitrogen prices and possible shortages. Many Corn Belt agronomists have said that some reductions in application rates may have little impact on yields due to overuse in the past, when lower costs provided less incentive for monitoring use. Further, more producers have integrated soybeans into their crop rotations, particularly in the Western Corn Belt after planting flexibility took effect in 1996, and may not be fully taking into account the nitrogen carryover effect from the soybeans. Higher prices this year will likely promote more precise application rates through soil testing and increased side dressing. However, high fuel prices will raise the costs of additional passes through the fields, so this option may not be an automatic choice.

Corn Domestic Demand: Forecast corn feed and residual use is up 25 million bushels in 2001/02 compared with 2000/01. Pork producers are increasing the number of sows farrowing and feed use may be stronger. The dairy sector is forecast to keep milk production about the same through 2001, then increase slightly in 2002, thus, keeping feed demand strong. Similarly, the poultry sector is also expected to increase production during the period, keeping feed needs strong. Beef production is forecast to slip 4 percent in 2001 and 2 percent in 2002. Thus, their feed needs may not be as strong.

FSI use is expected to increase 3 percent from the 2000/01 level. Corn used to make high fructose corn syrup (HFCS) is forecast to increase 3 percent, returning to longer run growth in use. Use of corn to produce glucose and dextrose is expected to grow slightly, while use of corn in starch production is up 2 percent. Corn used to produce fuel alcohol is forecast to grow 5 percent in 2001/02 from the year earlier, following a 9 percent increase in 2000/01 from the 1999/00 level. Incentives under the Bioenergy Program are expected to help boost corn used in alcohol production, probably near plant capacities. For 2000/01, 42 companies have signed up to increase ethanol output by 246 million gallons in response to incentives under the program. Corn used in beverage and manufacturing alcohol plus cereals and other production are forecast to grow about 1 percent per year, near the rate of increase in the population.

Corn Export Demand: The global setting for feed grain trade in 2001/02 is generally favorable. Economic growth worldwide will slow from the robust pace of 2000/01, but it should remain strong. This suggests continued increases in meat and poultry consumption and, thus, demand for corn and other feedstuffs. Domestic production of feed grains also influences import prospects in many countries, but several of the largest markets do not grow much, if any, feed grains themselves.

A modest increase in U.S. corn exports is forecast for 2001/02. Exports are projected at 2,100 million bushels, up 50 million from the 2000/01 forecast. There are few changes anticipated in the fundamentals of the world market. Global imports are likely to decline slightly, while export competition abates somewhat, but remains formidable. Small amounts of feed wheat, similar to 2000/01, are expected to compete with corn in certain markets, notably South Korea, while sorghum trade is expected to increase because of increased availability in the U.S.

There are few significant changes forecast in global imports in 2001/02. This year's record large corn crop in Brazil will mean negligible imports in 2001/02 and continuation of some exports. Asian imports should increase modestly, with gains in Indonesia and Malaysia. However, corn imports by the largest Asian buyers, Taiwan, South Korea, and Japan, will be about flat. Imports by Japan may weaken slightly in the face of continued gains in meat and poultry imports and a soft economy. What is notable on the import side is the lack of import growth seen for China in 2001. Without the impetus of the WTO commitment to start minimum import quotas, China corn purchases will stay insignificant.

Foreign corn exports are forecast to decline in 2001/02, leading to the increase in U.S. exports and market share. The major reason for the reduction in competing exports—and the major source of uncertainty—will be China. China is expected to reduce corn exports for the second consecutive year, but the question is by how much. Exports for 2000/01 are forecast at 6 million tons, with the initial forecast for 2001/02 at 4 million tons. In addition to the usual crop production uncertainty, difficulty in gauging China's export intentions stems from the unknown size of its corn stocks, and policy questions, especially how long China will continue using export subsidies.

Aggregate shipments by other corn exporters are expected to show little change in 2001/02. Argentina's exports will remain high as low soybean prices favor increased corn plantings for the crop to be harvested beginning in March 2002. Elsewhere, recovery from drought in Eastern Europe will allow a marked rebound in its corn exports. Conversely, South Africa's export prospects in 2001/02 will weaken because of a sharp decline in corn production for the crop to be harvested in coming months.

Corn Ending Stocks and Market Prices: Ending stocks are forecast at 1,636 million bushels, a drawdown of 255 million bushels from the previous year and the lowest since 1997/98. The ending stocks-to-use ratio of 16.5 percent is below the 2000/01 estimate of 19.3. Thus, market prices are expected to average

about \$1.95 per bushel, up from \$1.80 in 2000/01. Corn prices could increase significantly if dry conditions develop prior to and during the pollination period.

### **Soybean Supply, Demand, and Price Outlook for 2001/02 (Tables 5-7)**

**Soybean Supplies:** Domestic soybean supplies are projected at a record 3.3 billion bushels for 2001/02. This is up 7.5 percent from 2000/01, and the fifth consecutive year supplies have broken previous-year records. The increase in available supplies is projected as the result of a 19 percent year-to-year increase in beginning stocks and a projected 1.3 percent, or 1 million acre increase in soybean planted acreage. Production is forecast at 2,945 million bushels, exceeding last year's record by 6 percent. Larger 2001/02 supplies are projected despite yield prospects for the 2001 crop well below the record 41.4 bushels per acre achieved in 1994/95.

The trend yield for 2001 is projected at 39.5 bushels per acre. This is down from last year's 40 bushel-per-acre projection for the 2000 crop. While the year-to-year trend increase remains at 0.5 bushels per acre, 1999 and 2000 yields have pushed down the U.S. yield trend line about 1 bushel per acre. Hot, dry conditions in late summer 1999 reduced yields throughout the traditional soybean growing areas in the Eastern Corn Belt States and Iowa. Similar conditions last August and September reduced yields in the Western Corn Belt as well as the quality of seed for the 2001 crop. Even using more normal weather assumptions for 2001, germination rates lower than normal increases downside yield risk, but growers will likely compensate by increasing seeding rates and avoid early planting into cold soils.

**Soybean Domestic Demand:** Domestic disappearance for 2001/02 is projected to increase 3.4 percent, to 1.8 billion bushels. Domestic crushing is projected at a record 1.65 billion bushels, up 3.5 percent from 2000/01. Continuing low prices for meal and expansion in hog and poultry production are expected to increase meal demand in 2001/02. Domestic meal use is projected up 2.2 percent for 2001/02. Meal prices for 2001/02 are projected at \$170 per ton, down from a projected \$178 per ton for the current year, but up slightly from the 1999/00 price of \$168 per ton. Domestic soybean oil demand is projected to grow modestly again helped by low prices and a little more industrial use. With higher demand for soybean oil expected, oil prices may bottom out and prevent further erosion of domestic crushing margins.

Interest in non-food uses is growing as prices are competitive in many of the industrial markets. Greater vegetable oil use in animal rations is also likely as oil extraction rates drop. Biodiesel use should expand some as well. Under the Bioenergy Program, companies producing biodiesel from soybeans intend to increase output by 36 million gallons (about 10 million bushels) for the December 2000-September 2001 period compared with year earlier levels. The Bioenergy Program will also be in effect for fiscal year 2001 (October 2001-September 2002).

**Soybean Export Demand:** Foreign protein meal use is projected to increase 2.5 to 3.0 percent in 2001/02, about the same as in 2000/01. Soybean meal use is expected to slow slightly as production and use of competitive meals in importing countries rebound from reduced 2000/01 levels. Nevertheless, Asia, Mexico, other Latin America and Middle East countries are expected to have modest to strong growth. China and Mexico will contribute little to soybean meal imports, as both countries prefer to import soybeans and crush them locally. European soybean meal imports are expected to show little growth as overall demand for oilmeals is expected to grow only slightly from 2000/01 levels. High prices for meal relative to grains are expected to continue to limit European meal use. Some shifting from beef to hog feeding and a probable exclusion of animal protein feeds, however, are expected to continue boosting meal use. Overall, U.S. soybean meal exports are expected to increase by 4 percent,

to 7.4 million short tons in 2001/02. This expected increase reflects world import demand growth, as well as, slower growth in South American soybean and meal exports.

Despite the expected strong growth in palm oil trade for 2001/02, low soybean oil prices are expected to generate a modest 3-percent growth in world soybean oil trade. With huge supplies, projecting when global vegetable oil markets begin to turn around is difficult. The major vegetable oil importers, China and India, will likely have more domestic oilseed production, while import policies, especially in India, could have the effect of significantly slowing growth in palm and other vegetable oil trade. This is particularly troubling as palm oil production has been expanding sharply to record levels in both Malaysia and Indonesia and will likely keep global vegetable oil inventories at near record levels through 2001/02. Prices for soybean oil could remain close to 30-year lows at least through early 2001/02.

Although U.S. soybean production is projected to increase by more than 6 percent, soybean production in the rest of the world is expected to increase only slightly (less than 0.5 percent) in 2001/02. Continued low prices and large U.S. and global stocks of oilseeds and oils will weigh on foreign production decisions in the year ahead, likely causing modest production declines in competing exporter countries. Importing countries, such as India and China, are expected to experience increases in oilseed production, rapeseed in particular. However these increases will not be enough to meet their internal demand growth, particularly for oilmeals and soybeans.

The picture is somewhat less bright for vegetable oil import demand. Global demand for rapeseed and other high-oil-content seeds could experience some slowing in 2001/02 as many of the big Asian importers have more than adequate supplies.

U.S. soybean exports are projected at 1.0 billion bushels in 2001/02. U.S. exports will be boosted by larger U.S. availabilities, reduced South American supplies, and expanded foreign import demand. China's preference for imports of soybeans rather than products will provide additional growth for soybean imports. Imports of soybeans by China should remain strong at 9 to 10 million tons in 2001/02, but likely below the 10.1 million ton record of 1999/2000.

Soybean Ending Stocks and Market Prices: Despite an outlook for growth in domestic and export demand to reach record levels, a larger growth in supplies is expected to leave 2001/02 ending stocks up 38 percent from current year projections. At 475 million bushels, 2001/02 ending stocks would be the largest since 1985/86. Heavy supplies and large ending stocks for 2001/02 are expected to pressure prices into the lower \$4 per bushel range. Producers' incomes will continue to be supported by the marketing assistance loan program and program outlays could approach \$4 billion for the 2001/02 crop.

## **Summary**

Market prices for corn and wheat will likely improve in 2001/02 largely because of reduced supplies. Even though wheat use will drop moderately, lower supplies will reduce stocks. For corn, slightly larger use will combine with lower supplies to drop ending stocks. Conversely, soybean prices, projected at around \$4.25 per bushel, will be under intense pressure as production and supplies balloon to record levels despite projected record demand. Soybean oil prices are projected to remain around the 2000/01 forecast level of \$0.135 per pound through 2001/02. Competition for exports will be fierce because of the large global supplies of oilseeds and oils. Soybean meal market prices are projected at \$170 per ton and will be supported by record domestic disappearance.

Table 1. Wheat, Corn, and Soybean Planted Acreage, 1996-2001F (million acres)

	1996	1997	1998	1999	2000	2001F
Wheat	75.1	70.4	65.8	62.7	62.5	61.0
Corn	79.2	79.5	80.2	77.4	79.6	78.0
Soybeans	64.2	70.0	72.0	73.7	74.5	75.5
Total	218.5	219.9	218.0	213.8	216.6	214.5

F = Forecast

Table 2. Comparison of Net Returns Above Variable Costs for Wheat, Corn, and Soybeans, 1996-2001F (\$ per acre)

	1996	1997	1998	1999	2000	2001F
Net Returns (\$/acre)						
Wheat	86.08	63.27	64.16	67.36	69.14	55.89
Corn	187.93	151.23	125.66	125.03	125.15	124.94
Soybeans	196.36	172.64	129.84	125.08	139.48	151.18
Ratio to Soybeans (percent)						
Wheat	44	37	49	54	50	36
Corn	96	88	97	100	90	80

F = Forecast

1/ Net returns above variable costs per acre = (market revenue plus loan benefit revenue) minus variable costs where: market revenue = average market price *times* harvested yield, and average loan benefit revenue = (((loan deficiency payments *plus* marketing loan gains) *divided by* production) *times* harvested yield).

Table 3. Wheat: Supply, Demand, and Price, 1999/00-2001/02

	1999/00	2000/01	2001/02
		1/	2/
Area planted (mil. acres)	62.7	62.5	61.0
Area harvested	53.8	53.0	52.5
Yield (bu./acre)	42.7	41.9	40.5
Production (mil. bushels)	2,299	2,223	2,125
Beginning Stocks	946	950	839
Imports	95	95	100
Supply	3,339	3,268	3,064
Feed and residual	284	300	275
Food, seed, & industrial	1,016	1,029	1,043
Total Domestic Use	1,300	1,329	1,318
Exports	1,090	1,100	1,025
Total Use	2,390	2,429	2,343
Ending Stocks	950	839	721
Farm Price (\$/bushel)	2.48	2.65	2.85
		3/	

1/ Forecast. 2/ Projected. 3/ Mid-point of forecast range

Table 4. Corn: Supply, Demand, and Price, 1999/00-2001/02

	1999/00	2000/01 1/	2001/02 2/
Area planted (mil. acres)	77.4	79.6	78.0
Area harvested	70.5	72.7	71.2
Yield (bu./acre)	133.8	137.1	135.9
Production (mil. bushels)	9,431	9,968	9,675
Beginning Stocks	1,787	1,718	1,891
Imports	15	10	10
Supply	11,232	11,696	11,576
Feed and residual	5,664	5,775	5,800
Food, seed, & industrial	1,913	1,980	2,040
Total Domestic Use	7,578	7,755	7,840
Exports	1,937	2,050	2,100
Total Use	9,515	9,805	9,940
Ending Stocks	1,718	1,891	1,636
Farm Price (\$/bushel)	1.82	1.80 3/	1.95

1/ Forecast. 2/ Projected. 3/ Mid-point of forecast range.

Table 5. Soybeans: Supply, Demand, and Price, 1999/00-2001/02

	1999/00	2000/01	2001/02
		1/	2/
Area planted (mil. acres)	73.7	74.5	75.5
Area harvested	72.4	72.7	74.5
Yield (bu./acre)	36.6	38.1	39.5
Production (mil. bushels)	2,654	2,770	2,945
Beginning Stocks	348	290	345
Imports	4	3	3
Supply	3,006	3,063	3,293
Crush	1,579	1,590	1,645
Seed, & residual	164	168	173
Total Domestic Use	1,743	1,758	1,818
Exports	973	960	1,000
Total Use	2,716	2,718	2,818
Ending Stocks	290	345	475
Farm Price (\$/bushel)	4.63	4.65	4.25
		3/	

1/ Forecast. 2/ Projected. 3/ Mid-point of forecast range.

Table 6. Soybean Meal: Supply, Demand, and Price, 1999/00-2001/02

	1999/00	2000/01	2001/02
		1/	2/
Thousand short tons			
Beginning Stocks	330	293	275
Production	37,623	38,132	39,235
Imports	49	50	65
Supply	38,003	38,475	39,575
Domestic Use	30,378	31,200	31,900
Exports	7,331	7,000	7,400
Total Use	37,710	38,200	39,300
Ending Stocks	293	275	275
Avg. Meal Price (\$/ton)	168	178	170
		3/	

1/ Forecast. 2/ Projected. 3/ Mid-point of forecast range.

Table 7. Soybean Oil: Supply, Demand, and Price, 1999/00-2001/02

	1999/00	2000/01	2001/02
		1/	2/
	Million pounds		
Beginning Stocks	1,520	1,995	2,290
Production	17,824	17,920	18,505
Imports	83	75	75
Supply	19,427	19,990	20,870
Domestic Use	16,055	16,400	16,800
Exports	1,376	1,300	1,650
Total Use	17,432	17,700	18,450
Ending Stocks	1,995	2,290	2,420
Avg. Oil Price (\$/lb.)	0.156	0.135	0.135
		3/	

1/ Forecast. 2/ Projected. 3/ Mid-point of forecast range.

## ADDRESSING WATER QUALITY IN AGRICULTURE: INSTITUTIONAL ASPECTS AND PROSPECTS

Lawrence W. Libby  
C. William Swank Professor of Rural-Urban Policy  
The Ohio State University

There can be little doubt that agriculture is America's # 1 water quality challenge of the 21<sup>st</sup> Century. This is not because farms are huge polluters, but because other sources have been largely controlled and the non-point sources, of which farming is one, rise to the top of the "to do" list. The United States Environmental Protection Agency (USEPA) asserts, based on water quality sampling and other studies, that 40% of surveyed waters are still not "fishable and swimmable" and agriculture is most of the problem. The institutional history of agricultural water quality management in the U.S. has emphasized mandatory measures for confined animal feeding operations (CAFO) larger than 1000 animal units and voluntary measures for non-point sources. The latter are the primary interface between farms and water in this country today. The key policy question is whether this voluntary, incentive based approach will hold up, or be replaced by a more regulatory policy regime. There are clearly pressures for the tougher approach.

### CAFO Rules Under Review

USEPA is currently conducting hearings on a proposed set of revisions to the regulations governing approximately 39,000 CAFO's across the U.S. Current rules are apparently not solving the problem – nutrients from animal manure are polluting the nation's water. The changes would lower the size threshold for livestock operations requiring "national pollution discharge elimination system" (NPDES) permits from 1000 animal units to 300 under one scenario and 500 in an alternative. Under the 300 AU model, burden of proof would be on the farmer to demonstrate that he is not polluting and therefore does not need a permit. Under the 500 AU approach, CAFO simply would be redefined at that lower level with all of the permit rules in place. Further, the new rules would tighten the definition of animal units, more closely monitor the spreading of livestock manure, and would eliminate the current exemption for a "catastrophic storm event," defined as a 25 year, 24 hour storm. All CAFO's would have to analyze possible hydrologic links between manure storage areas and groundwater. USEPA has estimated the compliance cost for CAFO farmers at a hefty \$850 million to \$940 million a year.

Will new CAFO rules be enacted? The estimated cost is high, real, and concentrated; the benefits of the new rules are potential and widely dispersed. That is a formula for pointed debate between farm interests concerned about the viability of smaller CAFO's and groups arguing the public's interest in cleaner water.

I doubt that there is widespread popular sympathy for CAFO's. Most of us like a good steak, but CAFO's are a first order LULU.<sup>1</sup> People like farms in general, the green open space that provides welcome aesthetic relief from suburban sprawl. But large confined livestock farms are not part of that picture. A few animals grazing on the rolling hills – that's OK. But not CAFO's. Further, there is little public support for large farms that seem more like food factories than family-run businesses. States have their own CAFO rules as well, some going beyond the current NPDES requirements. Operator licensing and nutrient management plans are required in several states; some have lower CAFO thresholds than federal law.

## **TMDL's and Non-Point Pollution**

All states are in the process of calculating Total Maximum Daily Loads (TMDL) for selected pollutants in certain watersheds. These are essentially "pollution budgets" for each stream to be allocated among water users, presumably including farms as non-point sources. The job is to be completed within the next 15 years. This is not a new law. TMDL's are part of the 1972 Clean Water Act, but the policy thrust is new and agriculture is right in the middle of it.

Section 303d of The Clean Water Act directs all states to identify the offending stream segments and then assure that TMDL's are not exceeded. States have generally not proceeded aggressively, and until recently USEPA has not pressed the matter. Several lawsuits have helped spur USEPA to action. At issue is whether Section 303d is intended to include non-point sources or whether non-point coverage is meant to be limited to Section 319 dealing with watershed management. EPA believes that it has the authority and is gently pushing the states to respond. So far, however, primary discretion remains with the states in handling non-point and blending point and non-point rules. But states know that non-point is the primary problem, leading them inevitably to the farm gate.

Given the dispersed nature of farming and the lack of clarity on pollutant releases from specific farms, the non-point implementation will necessarily depend on modeling and stochastic definitions of pollution sources. Jim Boyd at Resources for the Future has stated, "A lack of scientific certainty will not by itself legally hobble TMDL plans, since certainty is not a prerequisite for program implementation" (2000, p.10). But he asserts that this uncertainty places greater emphasis on scientific reliability of the data and models used to estimate pollution discharges from various sources and the management schemes. There will be expert panels, review procedures and other iterative steps to develop defensible and effective policy. States must give "reasonable assurance" that TMDL's will be met, including those rural watersheds where farms are the primary source. In many instances, such assurance must go beyond the usual voluntary cost-sharing approach to have any possibility of success. There must be some evidence that the state's non-point strategy will reduce pollution loads. If state action is not sufficient, USEPA must put a TMDL plan for that state in place. This gets EPA very close to the "no-fly zone" for federal control of land use within states, a dangerous point at best. Since the courts and prevailing public opinion prohibit federal regulation of state land use patterns, it is questionable whether USEPA could carry out its own TMDL plan (Hazlett and Rogers, 2000).

---

<sup>1</sup> Locally Undesirable Land Use

The California Farm Bureau recently contested the USEPA authority to include non-point sources in TMDL calculations under section 303 of the U.S. Clean Water Act. The California Supreme Court subsequently ruled that 303 *does* include non-point and that TMDL's could be implemented for polluted streams that draw only from non-point sources. The battle lines are drawn, as various environmental groups have entered the fray. The costs of compliance could be very high, with no real assurance that actions by any specific farm will reduce the overall water quality problem.

Agriculture faces some important questions of political strategy in this whole matter. I would contend that the American people want and feel that they deserve cleaner lakes and streams. It is increasingly apparent that farms are a big part of the problem. At the same time, surveys show that farms and farmers enjoy enormous support among U.S. consumers. People feel that farming is an honorable and admirable profession. It is doubtful that USEPA has such broad general support as an organization, but the desired outcomes of clean air and water are strongly held values. One obvious strategy for agriculture is to draw on that reservoir of good will for farming and resist efforts to "raise the bar" for farmers as land and water stewards. That is the tendency so far. Major farm organizations have sought to exempt agricultural non-point sources from TMDL's and maintain the voluntary, incentive-based approaches that have long prevailed. They have quibbled with definitions and tried to invoke the "sound science" shield, when it really is a question of *whose* science will prevail. In my view, that is a losing strategy, for several reasons:

1. Consumers' support for farming will not extend to land and water abuse. Demands for cleaner water relate to family health and safety, while support for the amenity open space and life style features of farming is softer. An important reality is that *most* of the popular appeal of farming and farmland stems from these open space amenities, not from the food commodities these farms produce.
2. Consumers/taxpayers are more generally aware than ever before of the huge financial investments they have made in farming. The scheduled phase-out of income supports with the Federal Agriculture Improvement and Reform Act (FAIR) of 1996 has yielded to huge emergency payments, and people know it. They still support farming and the needed financial help, but expect something in return. That "something" includes safe food, land stewardship, and water quality, among other things.
3. As noted above, farm consolidations, contract farming and large-scale livestock production erode the popular image of farming as a family enterprise with all of its attendant virtues. Increasingly, people feel that large farms should have the same obligations as other industries. That includes whatever it takes to clean up the nation's waterways that are choked with sediment and other farm-based pollutants.
4. Many states have already beefed up non-point enforcement, both to avoid and respond to farm-based pollution. Cost sharing, incentives, and technical assistance are still important, but not the only instruments for change. Oregon requires farmers to develop and follow water quality plans. Maryland can levy fines when soil or sediment is discharged into state waters. Maryland farmers must follow nutrient management plans. Wisconsin relies on local enforcement of water quality rules. The trend is clearly toward more mandatory measures.

## Conclusions

I do not see a major crackdown on farms in the near future. U.S. policy is always incremental. But I do see the need for agricultural interests to take a positive stance on water quality. We know that most farmers do care about water quality, but it is time for them to be out in front on the issue. They must act preemptively, to do what is necessary to measurably reduce farm-based pollution and to work *with* consumer and natural resource groups in the process. They cannot successfully demand payment for any on-farm change that may improve conditions for the general public.

Land ownership and private property rights are absolutely essential in the U.S. political economy, and nowhere is that more true than in agriculture. It is also true, however, that private rights and responsibilities in land use are defined in a broad social context that includes the rights of non-owners. That context is constantly evolving, and farmers must be part of the change.

Two trends show particular promise for farmers and improved water quality. The first is increased emphasis on watershed management that can tailor the policy mix to the resources and people of that region. These cannot be just new ways to hand out federal and state incentives to farmers. They must establish real water quality goals, and then meet them. Some level of enforcement may well be necessary, but at least the process will be local, within a state umbrella. There will be opportunities for public involvement in setting targets and establishing policy. Farmers must be a part of that.

The second trend is toward such institutional innovations as permit trading between point and non-point sources within an overall TMDL framework for a watershed, and “green payments” for environmental amenities in conjunction with reducing environmental damage. The former permits water users who can meet compliance standards relatively cheaply to sell the “right to pollute” to a user for whom compliance is more costly. Thus improved water quality is achieved at a lower cost to all. There has been some experimenting with permit trading, but little clear evidence of effectiveness. The information costs under such schemes (establishing trading ratios, etc.) can be quite high. The latter would reward farmers for providing such open land amenities as wildlife habitat, groundwater recharge, and rural aesthetics, while holding them responsible for cleaner water. A cross-compliance procedure within mandatory water quality improvement standards and timetable might work.

The challenges of implementing such programs are substantial, but the stakes for agriculture are such that the effort is worthwhile. The American people want cleaner water and will insist that farmers do their part to assure that it happens. Strong command and control methods are not sufficient or even necessary if other means are adopted. But there will be a strong regulatory underpinning to any future agricultural non-point abatement effort.

### Selected References

1. Boyd, J. "Unleashing the Clean Water Act: The Promise and Challenge of the TMDL Approach to Water Quality," *Resources*, Spring, 2000:139, Washington, D.C.: Resources for the Future, Inc. pp7-10.
2. Hazlett, A. and B. Rogers. "New Water Quality Regulations Raise Questions About EPA Influence Over Agricultural Practices" *Agricultural Law Update*, 17(12): 4-7
3. Hazlett, A. and B. Rogers. "District Court Rules Non-Point Sources Are Included in Listing of Impaired Waterways, Calculation of Total Maximum Daily Loads," *Agricultural Law Update*, 17(11): 4-7
4. Tweeten, L. and C. Zulauf. "Public Policy for Agriculture After Commodity Programs," *The Review of Agricultural Economics*, 19:(Fall/Winter 1997), 263-280.
5. U.S. Environmental Protection Agency. "Proposed Regulations to Address Water Pollution From Concentrated Animal Feeding Operations," Washington, D.C.: USEPA (EPA 833-F-00-016) December, 2000.

## 2001/02 U.S. SUGAR SUPPLY AND USE<sup>1</sup>

John M. Love  
USDA World Agricultural Outlook Board

The 2001/02 projection uses the baseline, published in *USDA Agricultural Baseline Projections to 2011*, updated with carry-in stocks from the February, 2001 *World Agricultural Supply And Demand Estimates*.

### Key assumptions behind the sugar baseline:

- Continuation of current U.S. sugar policy.
  - Loan program includes loan rates and non-recourse loans.
  - Tariff-rate quota imports stay under current system.
  - U.S. honors commitments under trade agreements.
  - Commodity Credit Corporation holds forfeited sugar.
- Continuation of trends in consumption and factors of production.
  - Total consumption increases 1.2 percent annually after 2001/02.
  - Technology increases crop yields and sugar recovery rates.
  - Alternative-crop prices improve.
- In Mexico, sugar supply increases more than domestic demand.

### Key results from the baseline, comparing 2002/03 with 2010/11:

- Growth in U.S. supply outstrips growth in use. Imports from Mexico increase, as the North American sugar market becomes fully integrated. Domestic production is flat. End-of-season stocks in 2011 are 44 percent of use. Commodity Credit Corporation stocks accumulate.

### Key results from the 2001/02 projections:

- Total supply for 2001/02, at 12.75 million short tons (raw value), is up 255,000 tons, as higher production and imports are only partially offset by lower carry-in stocks.
  - Sugar production, at 8.86 million tons, is up 324,000 tons from 2000/01.
  - Increased imports are due to projected higher imports from Mexico under the North American Free Trade Agreement (NAFTA) low-tier tariff.
- Total use of 10.67 million tons is up 200,000 tons from 2000/01, based on trend increases in domestic use. As a result, carry-out stocks of 2.08 million tons are 19.5 percent of total use.

### Supply, demand, and policy factors to watch for 2001/02:

- Factors affecting sugar-crop plantings in 2001.
  - Will there be a Payment-In-Kind Diversion Program?
- Will Mexico be a “net surplus” producer?
  - What level of NAFTA low-tier import access?
  - Will world market prices drop low enough to afford second-tier imports from Mexico?
- Sugar-containing imports.
  - Will sugar extraction from imported syrups increase?

---

<sup>1</sup>Moderator's remarks.

2001 USDA Agricultural Outlook Forum, Sweeteners Session  
February 23, 2001

U.S. Sugar Supply and Use 1/

=====				
Item	:	1999/00	:	2000/01 : 2001/02
	:		:	January February : Projection
=====				
	:	1,000 short tons, raw value		
Beginning stocks 2/	:	1,639	2,219	2,219 2,027
Production 2/3/	:	9,042	8,538	8,538 8,862
Beet sugar	:	4,976	4,370	4,370 4,614
Cane sugar 4/	:	4,065	4,168	4,168 4,248
Imports 2/	:	1,636	1,790	1,740 1,863
TRQ 5/	:	1,124	1,275	1,275 1,422
Other 6/	:	512	515	465 441
Total supply	:	12,316	12,547	12,497 12,752
Exports 2/7/	:	124	175	125 150
Domestic deliveries 2/	:	10,111	10,385	10,345 10,520
Domestic food use	:	9,993	10,225	10,225 10,370
Other 8/	:	118	160	120 150
Miscellaneous 9/	:	(137)	0	0 0
Use, total	:	10,098	10,560	10,470 10,670
Ending stocks 2/	:	2,219	1,987	2,027 2,082
Private	:	1,922	1,193	1,234 1,289
CCC 10/	:	297	794	793 793
Stocks to use ratio	:	22.0	18.8	19.4 19.5
=====				

1/ Fiscal years beginning Oct 1. Includes Puerto Rico. 2/ Historical data are from FSA, "Sweetener Market Data" except imports from U.S. Customs Service. 3/ Projections for 2001/02 are based on the USDA Agricultural Baseline Projections to 2011, updated with beginning stocks from the February WASDE. 4/ Production by state for 2000/01 (projected 2001/02): FL 2,130 (2,019); HI 265 (281); LA 1,570 (1,774); TX 180 (152); PR 23 (22). 5/ Actual arrivals under the tariff rate quota (TRQ) with late entries, early entries, and TRQ overfills assigned to the fiscal year in which they actually arrived. The 2000/01 and 2001/02 available TRQs assume shortfall of 65,000 tons. 6/ Quota exempt imports (for reexport, for polyhydric alcohol, sugar syrup under USHTS 1702904000, and high-duty). 7/ Mostly reexports. 8/ Transfer to sugar containing products for reexport, for nonedible alcohol, and feed. 9/ For 1999/2000, includes residual statistical discrepancies. 10/ For 2000/01 and 2001/02, includes sugar owned by the Commodity Credit Corporation, as of February 6, 2001.

Agricultural Outlook Forum  
Arlington, VA  
February 21 – 23, 2001

Good morning, my name is Luis Fernandez and I am the CFO of Florida Crystals, a privately owned vertically integrated cane sugar producer. We farm, mill, refine, package, and distribute sugar. We produce about 800,000 tons of raw sugar and further refine about 500,000. We are also the only domestic producers of organic sugar.

The last few years have been very difficult ones for sugar producers and processors. Just when you thought things were bad and that they couldn't get worse, guess what, they have.

Although lots of people come to Florida for the good weather, cane farmers in Florida have been getting the short end of the stick. In late 1999 Hurricane Irene plowed through the cane fields and knocked down much of the crop. As this year got started, our farms were hit by the coldest weather anyone can remember and we are now in the throes of a drought. All this, in a little over a year.

As we all know, sugar prices have both been at historical lows. Since last summer, fertilizer, fuel, and energy costs have risen by orders of magnitude.

But let's face it, farmers should not complain about the weather, it's part of our life, there's nothing we can do about it, and sometimes it's good and other times it's bad. There is symmetry.

Likewise, raw material costs go up and down. Sometimes they are high and other times they are low. There is symmetry.

On the other hand, prices have been low with little, if any, likelihood that they will be high. We cannot make up for low prices with high prices. Why? Under current legislation, if prices are low, there is little that can be done. Whereas in the event that prices were to rise the USDA can either release CCC stocks or increase the quota. There is no symmetry.

How did we get ourselves in this predicament? The ability and flexibility of the USDA to manage the Sugar Program was significantly reduced by trade agreements, primarily the Uruguay Round and to a lesser extent, although growing in importance and consequence, NAFTA.

For example, In fiscal year 1988, domestic production of sugar was such that the USDA set the TRQ at 874,000 tons, down from 1,221,000 the prior year; this resulted in stable sugar prices (#14 averaged 22 cts). The following year, 1989, domestic production declined by over 400,000 tons and the TRQ was set at 1.4 million tons, and then 2 million tons in 1990.

The USDA no longer has the ability to reduce the TRQ below the 1.25 million WTO minimum.

So what can we do when domestic production plus imports exceed demand? If *minimum imports* are mandated by international trade agreements and *demand is relatively static (growing at 1.5% per annum) and price inelastic*, then the only way to avoid devastating prices is to *limit the domestic supply*.

If the sugar industry wants to step up to the plate and solve its problem, without asking the government for a handout, we need to agree on an equitable method to *limit the marketing of sugar*. Most importantly, Marketing Controls, or Inventory Management, does not require government funding to solve the problem.

Any solution which relies on *government funding will make our industry vulnerable to criticism*, especially if the budget surpluses are reduced, or disappear because of slower economic growth, or tax cuts, or increased spending, or all of the above.

In addition to the problem of domestic oversupply, our *borders are increasingly porous*. Every year the amount of sugar that enters the US, either as stuffed or hi-test molasses, cocoa blends, or cane juice has been growing. As long as countries around the world subsidize their sugar industries and therefore encourage an artificially low so-called 'world price,' there will be pressure on our borders. In the US, there is data suggesting that may be as much as 500,000 tons of sugar a year are circumventing the TRQ in various forms. We must be vigilant in identifying these imports and forceful in prevention.

So far we have focused on how to preserve a domestic sugar industry without asking the US Government for a handout. Lets now spend a little time on why we should support the US sugar industry.

First, it is a *world class industry* which LMC ranked as 18<sup>th</sup> out of 96 producing countries in terms of cost competitiveness in a 1997 study.

Second, it directly employs 420,000 *high paying manufacturing jobs*. The average employee in our company is a skilled worker earning more than \$30,000.

Third, it adheres to the highest *environmental and labor standards* in the world. For example, FCC pays close to \$5 million each year towards Everglades's restoration.

Fourth, we *reliably provide the US food industry and the American consumer with a quality product at a reasonable price*. When was the last time you heard a consumer complain about the price of sugar? As everyone is aware, at current price levels our industry is not profitable, even at historical level's, prices were not sufficient to encourage surpluses (such as the EU) or even self-sufficiency, we have always been an importer.

So far, we have addressed the need for supply management in order to achieve stable prices at acceptable levels and that it is important that we solve our problems without a government handout.

Now, let's focus a little on Mexico.

The *integration with Mexico is inevitable*, the issue is simply when and how. According to NAFTA it will occur no later than 2008. That is just around the corner.

A few suggestions:

- If we impose *Supply Management*, *Mexico needs to do the same*. The US sugar industry should not limit its output to benefit the Mexican sugar industry; this is a burden that must be shared. In fact, since NAFTA was signed, Mexican production has increased by 35% and US by 18%, about half.
- Both countries need to be mindful and vigorous in their *border protection* against those that are busy identifying and taking advantage of loopholes that clearly go against the intent of our national policy.
- If Mexico wants to integrate with the US, then it has to allow its sugar industry *to restructure and shut down inefficient plants*. This means that the government needs to stop financing inefficient sugar mills that produce sugar at a loss and contribute to overproduction, which in turn hurts the more efficient producers.
- This is very important, because in the US, our industry is subject to *the laws of the market place*. For example, in the 1980's our cane refining industry was cut in half as HFCS made its entry. Just over the last few years we have shut down 3 beet factories, 3 sugar mills and a refinery in Florida. There is probably more to come.
- If Mexico wants to integrate, then we must compete in the market place and the Mexican Government needs to step aside.

In sum, we need Supply Management to stabilize prices at acceptable levels, we need to do this without a government handout, and we need to make NAFTA work. As farmers, we'll take our chances with the weather. It has symmetry.

Thanks for your time and attention.

**"Future Sugar Policy Needs for the Domestic Industry"**  
**Richard McKamey, Worland, Wyoming**  
Chairman, Legislative Committee  
American Sugarbeet Growers Association  
Remarks Presented at the  
U.S. Department of Agriculture  
"Agricultural Outlook Forum 2001"  
February 23, 2001

Let us begin today with three key facts about the beet sugar industry:

- There are 12,000 family farmers in 12 states that produce sugarbeets for 27 beet sugar factories.
- Beet sugar accounts for over 54 percent of all the sugar produced domestically, and about half of the refined sugar marketed in the U.S.
- Our industry is globally competitive with other producers, but continues to be threatened by sugar dumped on the world market at prices below any country's cost of production.

Twenty days ago, sugarbeet grower leaders from across the country met to assess the current condition of the U.S. sugar market and the economic health of the beet sugar industry. Let me assure you that in the 25 years I have been involved in this industry. I have never seen the entire industry under such tremendous financial stress. Let's look at the evidence:

- Since the 1996 farm bill, seven beet factories have been closed.
- The largest refined sugar marketer, which owns 9 of the remaining 27 factories--one third of the industry--is in bankruptcy.
- Over half of the beet sugar factories are for sale to their growers, who we view as the owners of last resort before closure.
- Eleven of the 27 beet sugar factories are already farmer-owned cooperatives.
- Share values of our cooperatives have plunged on average by 60 percent.
- The depressed price for sugar and other commodities is pushing some of the farmers in farmer-owned cooperatives to exit farming because they cannot get financing this year.
- There is currently no reinvestment in the beet sugar business.
- Our farmers are more reliant on secondary sources of credit because primary sources are either not available or severely restricted.
- Weather problems have caused severe difficulties in some isolated areas and pose a serious financial threat to growers.

- Skyrocketing energy costs affect fuel and fertilizer prices on the farm and substantially increase processing costs, further reducing grower returns.
- CCC stocks of sugar that currently overhang the market and depress prices are harmful to all segments of the sugar industry.
- Continued circumvention of the tariff rate quota by stuffed molasses and similar products continues to oversupply the U.S. sugar market.
- The uncertainty of the terms and timing of a resolution of the sugar dispute with Mexico further reduces the confidence level of local and national lenders.
- Some companies are unable to participate in the loan program because of the inability to make the prescribed minimum grower payment due to substantially higher storage costs as a result of the forfeitures. There is then no price safety net for their growers.
- Other crops that are part of a four-year rotation with sugarbeets do not, in most instances, cash flow without substantial government payments.
- Prices for sugarbeet pulp, a co-product of sugarbeets, follow the corn market, which is also depressed, lowering returns to growers and processors.
- Production continues to shift from irrigated to non-irrigated areas, and the industry continues to become more geographically concentrated. It is important to have a geographically-diverse industry to reduce the risk of weather and disease problems.
- The problems we face are not isolated, but industry-wide. We cannot survive by living off of our equity or cannibalizing our business. This industry is in serious trouble.
- The troubles of the beet sugar industry should be a concern to both our customers and to policymakers. The sweetener market demands a reliable supply of 45 different and diverse sugars and syrups, delivered just-in-time. Beet sugar processors and cane sugar refiners are the providers of those products.

#### Solutions:

##### IMMEDIATE

- First, the government must work with the domestic industry to immediately get supply and demand back into balance by disposing of CCC-held sugar stocks by another Payment-In-Kind (PIK) or PIK-like program, or sell some sugar as an enhancement to the production of ethanol from corn. The sooner the market is signaled that steps will be taken to balance the market, the sooner the industry can begin to recover.

##### TRADE

- Second, the government must stop the import circumvention scheme of stuffed molasses and any other products for desugarization. This is a blatant circumvention of the tariff rate quota that undermines the integrity of our trade agreements and threatens the support for further negotiations of new trade agreements. We are hopeful that the courts will rule against this unscrupulous practice that threatens every American sugar farmer.

We also believe that the trade dispute between the U.S. and Mexico on sweeteners cannot be resolved until this loophole is plugged. Until there is some assurance that these circumvention schemes are addressed, no domestic policy can perform in a predictable way, and the domestic industry will always be at great risk.

- Third, the U.S. and Mexico must resolve the sweetener trade dispute. Once the stuffed molasses scheme is properly addressed, we are hopeful that Mexico will finally come forward with a proposal that will maintain the integrity of a U.S. sugar policy by balancing supply and demand within our respective countries, and eventually among our two countries.

Let there be no question regarding the following facts.

1. Without the sugar side letter, there would not have not been enough votes to pass the NAFTA in the U.S. Congress.
2. The challenge to the side letter by Mexico is yet another case of an attempt to dispute the rules in order to avoid the rules.
3. Should Mexican sugar come in over the tier two tariff and harm our market and threaten our industry, there will be no hesitation on our part to bring antidumping and countervailing actions. By the end of next week, our growers will have completed the preparatory work for our industry's legal counsel to bring the cases at any point in the future. We are ready.

Let me be clear on what our growers believe should happen between our two countries. We should work together to transform the Mexican sugar market into a mature sweetener market, like those in the U.S. and Canada. Over the past 25 years, the U.S. built 13 high fructose manufacturing facilities and closed 73 beet and cane factories, mills and refineries. Mexico must make a similar transition in a fourth of that time. This needs to be done in a manner that does not harm the U.S. market or the U.S. industry, which has already borne the burden of a changed market.

As future partners in an increasingly global trading system, we must work together in future multilateral, regional, and bilateral negotiations to maintain the integrity of the U.S./Mexico sweetener market. We must become close partners--not distant adversaries—as we look to the future. Let us work diligently to bring together a workable and lasting solution.

- Fourth, as we move forward in future trade negotiations in WTO, FTAA, and other bilateral agreements, our negotiators must not provide more access to the U.S. sugar market than the residual needs of our market. The fact is that the U.S. sugar market, like any market, is finite--it is only so big. If it is oversupplied by imports, no policy can work and no industry can be sustained. We will support trade negotiations that provide supplies that are balanced with demand.

I have listed trade issues first because they are crucial to the development of domestic policy. Without clarity or certainty of our imports, no domestic policy can work and no industry can be sustained.

## DOMESTIC POLICY

- As we look to future sweetener policy, it must be based on basic fundamental truths about the importance of our 45 different sugars and syrups, the uniqueness of our industry, and the nature of our domestic market.
- Just as we have viewed our market in trade policy and trade negotiations, we must also view it in our domestic policy development. The market is finite--it is only so big. If domestic producers expand beyond demand, the market is oversupplied, and the entire industry goes into an economic meltdown. We are experiencing this problem now, and it must be avoided in the future.
- Some of the unique characteristics of sugar industry are:
  - Two entirely different crops eventually produce the identical commodity.
  - All beet sugar production is either contracted to a designated processor or share-owned in a farmer-owned cooperative.
  - No acreage is planted for sugar without the assurance of processing.
  - Sugarbeet processors have no supply other than a local supply.
  - Sugarbeets are a perishable vegetable with no value until processed.
  - Sugarbeet farmers do not store beets on the farm.
  - Sugarbeet farmers do not store refined sugar, pulp, or molasses on the farm.
  - Sugarbeet farmers have no input on the marketing of their products.
  - Sugarbeet farmers cannot hedge or forward-contract the sale of sugar and co-products.
  - Sugarbeet farmers have specialized production and harvesting equipment not suitable for any other commodity.
  - No refined sugar futures market exists in the U.S.
  - Sugarbeet farmers have a two-year investment/return cycle.
  - Beet sugar processors must have a critical mass of growers every year.
  - Beet farmers and processors cannot flex in and out of production in response to market volatility.
  - Beets can only be grown on the same land every 3-4 years, verses cane that is a multi-year crop that does not require rotation.
  - Beet processors make refined sugar from beets and sell about 40 different products in many different packages to thousands of buyers. Each company must be 12-month suppliers and provide just-in-time delivery. Sugar cane growers produce raw sugar for six cane sugar refiners.
  - The world sugar market is a dumping ground for global producers who do not wish to have the surpluses produced in their country harm their domestic market. Dumping shifts injury from a domestic producer to a foreign producer.

### Principles and elements of a market-oriented sugar policy:

- Foreign imports are the residual supplier to the market.
- Adequate tools must be available to balance foreign and domestic supplies with demand.
- Returns to industry should be from the market, not the government.
- Policy must be flexible to adjust to seasonal crop volatility and structural changes in the industry.
- Policy must recognize the realities of how particular commodity markets operate.
- Policy recognizes that the market is finite.
- Policy provides an opportunity for adequate returns for farmers and margins for processors/refiners.
- Policy provides stability and security to the banking community to transition to a farmer-owned cooperative industry.
- Policy encourages continued investments to increase efficiency.

## **GRAINS AND OILSEEDS : A EUROPEAN PERSPECTIVE**

**Klaus D. Schumacher**

**Head of Economics Department, Toepfer International**

The grains and oilseeds markets of the European Union (EU) have been under constant change during the last years. These changes were first of all driven by reforms of the EU's Common Agricultural Policy. The MacSharry reform from 1993/94 to 1995/96 was the first step towards a more market-orientated agricultural policy in the grain sector. Reforms under the Agenda 2000 decisions were started in July 2000 with the intention to increase the competitiveness of EU grains on the world market. Today, additional pressure for change has emerged from the second BSE crisis. The following paper outlines some of these changes.

### **I Agenda 2000 – Goals and Achievements**

The grain intervention prices (guaranteed prices) of the EU were cut by over 30 % between 1995/96 and 1997/98 (MacSharry reform). Under Agenda 2000 – the second set of agricultural policy reforms in the EU agreed in Berlin in 1999 - grain intervention prices will be reduced further by 15 %, implemented in two equal steps of 7.5 % on July 1, 2000 and July 1, 2001, respectively.

Both the MacSharry reform and Agenda 2000 helped to restore the competitiveness of EU grain for feeding purposes. While in the 1980s feed grain consumption in the EU fell by 1 to 2 mln tons per year and grains were increasingly substituted by non-grain feed ingredients (NGFI), today approximately 25 mln tons more grains are being used for feeding than in 1992/93.

Grain feeding during the 2000/01 marketing year is estimated at 113 mln tons, up nearly 5 mln tons from the year before and 25 mln tons above the 88 mln tons fed in 1992/93. To be fair one has to say that a good part of the 5 mln-ton increase in 2000/01 has to be attributed to the weakness of the Euro and the corresponding higher prices for imported feed materials. In 2000/01 nearly 54 % of all grain being harvested in the EU is being used for feeding compared to 48 % in 1992/93. Today, grains contribute nearly 50 % to the raw material supply of the EU compound feed industry. Wheat took the lion share of the increase in grain use for feed; in the current marketing year about 41 mln tons of wheat will be consumed for feed, up by more than 3 mln tons compared to the previous year.

The higher grain incorporation led to lower usage of NFGIs. Accordingly, the import volume of NFGIs dropped from over 40 mln tons in 1993 and 1994 to 34 mln tons in 1998 and recovered in 1999 and 2000 to 37-38 mln tons. For 2001 EU imports are forecast at a good 36 mln tons.

The intervention price cuts will bring EU domestic prices closer to world market levels as market prices normally follow the development of the intervention price. Based on forward price quotations EU grain market prices in 2001/02 will not longer be determined by the intervention price as it has been in the past. At the same time price volatility in the EU domestic market will increase, simply following the pattern on international markets.

The cuts in the EU intervention price for grain will make EU grain exports less dependent on export subsidies. Based on a Euro/Dollar exchange rate of 0.925 US\$ for 1 Euro the 2000/01 grain intervention price of 110.19 €/ton equals about 102 US\$/ton and EU wheat could be exported to the world market without the use of export subsidies (restitutions). However, the competitiveness of EU grain on the world market is highly dependent on the development of the Euro/Dollar exchange rate. For example at a parity between Euro and US Dollar (1 Euro equals 1 US\$) world market prices for wheat have to be at around 110 US\$/ton to allow the EU to export without restitutions. If the Euro strengthens again and goes back to the level of close to 1.2 US\$ for 1 Euro, as it had been the case when the Euro was introduced, the EU intervention price would equal over 130 US\$, a price level that we have not seen on the international wheat market since mid-1997.

It has been mainly due to the strong US Dollar that the EU had no problem with the WTO limit on subsidized grain exports. During 2000/01, the EU is allowed to export 25.2 mln tons of grain with export refunds. Actual exports are forecast at around 27 mln tons, nearly 2 mln tons above the WTO limit. These actual export figure is only possible because of export without restitutions during nearly all of the first half of the marketing year (July to December 2000). During that period about 3 mln tons of wheat and 3.7 mln tons of barley were exported by the EU without the use of export subsidies. Since the beginning of this year, the EU again needs export subsidies for wheat, whereas barley can still be exported without subsidies. The lack of roll-over (unused subsidies from the previous years not allowed to be carried over any more) will force the EU to constantly monitor and review if the intervention price cut of 15 % under Agenda 2000 is already sufficient to make the EU more or less independent from export subsidies. Therefore the Agenda 2000 package contains a provision for the so-called "Mid-term Review". This review is going to be conducted during the course of this year and results will be presented by the EU Commission early 2002. Based on this review, the EU member states will decide on the necessity to cut the grain intervention prices further to achieve the goal of lasting independence from export subsidies for grain (see below).

The lowering of the EU intervention price will also increase the potential for higher grain imports into the EU, especially of quality wheat. This is due to the fact that the minimum import price is not allowed to exceed 155 % of the EU's grain intervention price. With each reduction in the intervention price the minimum import price and the applicable import levy drop accordingly.

The Agenda 2000 package foresees the removal of the special (higher) direct aid payments for oilseeds acreage. From 2002/03 onwards, grain and oilseeds farmers will receive the same acreage-based direct income payment. The equalization of direct aids for grain and oilseeds will allow the EU to no longer restrict oilseeds plantings to the maximum guaranteed area agreed in the Blair House Agreement back in 1992. This maximum guaranteed area has been fixed at 5.4 mln ha minus the prevailing set-aside rate (but at least 10 %). According to this formula, EU farmers of rapeseed, sunflowerseed and soybeans were allowed to plant a maximum of 4.9 mln ha to be able to receive the full direct aid for oilseeds. Due to the high oilseed prices in 1996/97 and in 1998/99 plantings exceeded the maximum guaranteed area and farmers were penalized by severe cuts in the direct payments. The much lower world market prices for oilseeds led to reductions in plantings and since 1999/2000 the planted area (excluding plantings for non-food purposes and of so-called small producers) did not reach the maximum guaranteed area of 4.9 mln ha.

For the 2000 harvest, the oilseed plantings dropped to 5.4 mln ha, the lowest level since 1996/97. Counted against the MGA were less than 4.5 mln ha. Due to the harmonization of the grain and oilseeds aid payments it is not expected that the maximum guaranteed area of 4.9 mln ha will be reached during

the next years. However, much depends on the development of world market prices as the EU production fully depends on them.

The Agenda 2000 package also removed the special treatment for feed pulses. The supplement to the grain aid was cut substantially and made the protein crops less competitive in farmers' crop rotations. Accordingly, the acreage planted to feed peas and feed beans fell in 2000 to a low of 1.1 mln ha. A recovery can be expected only if either the supplemental aid will be increased again or protein prices on the world market go up sharply.

## **II The BSE Crisis and its Consequences**

Since the discovery of the first BSE case in Germany on November 24 of last year the EU is experiencing a real crisis. BSE (bovine spongiforme encephalopathy) has now been found in nearly all EU member states (except for Austria, Sweden, and Finland). Consumers (and politicians) lost confidence in food safety to a very large and for many observers unpredictable extent.

Currently, beef consumption in the EU is down between 25 and 50 % depending on the EU country. Cattle slaughterings are between 40 and 50 % lower in most EU countries. For calendar year 2001, the drop in beef consumption is forecast at at least 15 % if not more. Many countries banned imports of EU cattle and beef and according to the EU Commission, the beef surplus in 2001 may exceed 1 mln tons (about 13 % of production). Therefore the EU Commission agreed with the member states to start a so-called "Purchase for Destruction Scheme". Under this scheme up to 2 mln cattle will be slaughtered for destruction to reduce the surplus on the market and to stop beef and cattle prices from falling further. These 2 mln cattle equal about 1.5 - 2 % of the total cattle inventory.

As meat and bone meal as well as animal fats in milk replacers are the most likely source of BSE transmission the EU extended the already existing ban on the usage of meat and bone meal for cattle to all animal feed. This ban is for the time being valid for six months from January to June 2001. During this period a scientific review whether a complete ban is justified has to be completed. The scientific review will have to focus on the question whether the current technique for the production of meat and bone meal (temperature of 133° Celsius, pressure of above 3 bar, treatment for at least 20 minutes) is really sufficient to destroy the BSE pathogen.

In addition to the ban of the domestic use of meat and bone meal, the EU banned the export of these products to EU third countries. Furthermore a ban on fishmeal for ruminants was put in place and the EU Council agreed to test all cattle older than 30 months for BSE during slaughtering.

Germany implemented even stricter rules and banned the use of fishmeal completely (with the exception of fishmeal for fish) and introduced a ban on the use of all animal fats in animal feed.

The EU used a total of about 2.4 mln tons of meat and bone meal in the year 2000. This quantity, based on protein, is equivalent to approximately 3 mln tons of high-pro soymeal (48 %) or 14.2 mln tons of wheat. Theoretically the EU's demand for soybean meal would have to rise by 3 mln tons. However, this is not going to be the case.

When looking into the year 2001, the cattle inventory (mid-year) will be down only 1 - 2 % compared to mid-2000. Overall industrial compound feed output is expected to decline slightly with a significant drop of around 5 % for cattle feed. The drop in beef consumption is going to be only partially offset by higher consumption of hog and poultry. Substitution with white meat might increase during the second

half of 2001, however, currently many consumers really reduce meat consumption in total due to an overall lack of confidence in food safety.

Accordingly, the EU's compound feed production for hogs is forecast to increase by only 1 % and for poultry by 2 % during calendar year 2001. Therefore the EU's soybeanmeal consumption is expected to be only 1 mln tons higher at 28 mln tons. In addition, as mentioned earlier, grain feeding is going to increase by about 3 mln tons.

The BSE crisis will have far-reaching consequences for the EU feed industry. Meat and bone meal, a highly regarded feed component, is lost at least till the end of June of this year. The ongoing scientific review might come to the conclusion that meat and bone meal is safe for hogs and poultry when produced under state of the art conditions. However, it is completely open at this point in time whether or not the agricultural policy makers will follow that advice. To regain the confidence of the consumers there is a high possibility that the ban on meat and bone meal might be extended indefinitely.

More or less agreed are several other measures to increase the transparency in the EU feed industry. Among these are the so-called open declaration and a positive list. The open declaration demands all feed processors to clearly state on a label the composition of the compound feed. In other words, they have to show ingredients used for the manufacture of a feed in descending order, maybe also with the exact percentage in the formula.

Currently, the EU is working with a regulation on undesired substances in compound feed and feed raw materials (for example lead, cadmium, aflatoxin). In the future this so-called negative list will be replaced by a positive list. The positive list will show all feed raw materials allowed for the production of compound feed. A product that is not on the list will no longer be allowed. It is crucial that this list is being compiled on a scientific basis and not up to political interests.

An agreement among EU member states and the Commission has been reached also on the introduction of quality assuring schemes. These schemes will become obligatory for the whole feed chain.

The EU Commission, Germany and some other EU member states also would like to introduce full traceability for all feed materials. The EU Commission made the demand for traceability part of their "White Paper on Food Security" that was released a year ago. The concept of traceability is going to be tested for feed raw materials produced full or partly from genetically modified plants. Currently, the EU Commission is drafting the so-called Novel Feed Regulation. The Novel Feed Regulation regulates the circulation and labelling of GMO feedstuffs in the EU market. The intention is to label all feedstuffs derived from GMO plants if the GMO content exceeds a certain threshold, most likely 1 %. The Commission plans to demand traceability including full documentation on GMO on a trait-by-trait basis.

### **III Future of the EU's Common Agriculture Policy**

The BSE Crisis increased the pressure to change the Common Agriculture Policy of the EU in a radical way. Criticism is mounting and especially Germany is demanding a complete overhaul of the current system of support.

The new German Minister for Consumer Protection, Nutrition and Agriculture, Mrs. Renate Künast, made very clear that consumer issues have to be put first. She also demanded to fully implement the precautionary principle. In addition, the new slogan is to demand "class instead of mass", in other

words: less intensive farming practices and a much higher share of organic and environmental-friendly farming. In this respect it is discussed to introduce minimum quality standards for production, processing, and trade of all agricultural products.

Strong pressure to continue the reform of the EU's agriculture policy is also coming from an increasing tightness in the EU's agriculture budget. The extra costs of the BSE crisis are seen at around 2 bln Euros. With these extra costs the upper limit of the EU's agriculture budget will be reached and it very well might be that additional funds are needed. It has been decided that additional funds cannot come from other sources than the agriculture budget. Therefore any additional money has to be taken away from other support programs.

Taking these points into consideration it is safe to say that reform of the EU agriculture policy is going to become an ongoing process. The basis for this process has been laid already in the Agenda 2000 decisions in Berlin back in 1999. Part of the Agenda decisions is to undertake a so-called "Mid-term Review" during the year 2001 with consequences drawn in the first half of 2002. Due to the budget pressure, the lack of full competitiveness on international markets and the EU enlargement by the countries from Central and Eastern Europe, more severe modifications in support to farmers - maybe already from 2003/04 onwards - will be implemented.

Among these additional cuts in support a further reduction in the grain intervention price by at least 5 % is highly likely. This cut again will be partly compensated by higher direct aid payments. At the same time the agriculture ministers of the EU might decide to introduce a degression of direct payments to be able to cope with the challenges of the enlargement. In addition, measures will be taken for a shift towards more extensive farming practices, first of all in the livestock sector. Furthermore there seems to develop strong support for so-called "cross compliance regulations". Under cross compliance farmers will be demanded to fulfil minimum standards during production. If they do not fulfil these requirements their direct aid payments will be cut (current regulation foresees a cut of 10 %). In addition, more and more mentioned is the so-called "modulation". Under a modulation scheme the direct aids being given to farmers will be cut and the freed money will be used for the development of rural areas and environmental purposes.

With respect to the grain and oilseeds markets these further reform steps will allow the EU to export grain without subsidies much more regularly than today. In fact, export subsidies should become necessary only in times of extremely low international grain prices. Intervention of grain will become a pure safety net and the use of grain for feeding purposes will continue to rise to the detriment of imports of non-grain feed ingredients.

Finally, the broader use of the precautionary principle as well as the introduction of minimum standards will increase the conflict potential in the World Trade Organisation and especially about the Agreement on the Application of Sanitary and Phytosanitary Measures.

**Agricultural Outlook Forum 2001  
February 23, 2001  
Grains and Oilseeds Luncheon**

***Grains and Oilseeds: A European Perspective***

by  
Klaus Schumacher  
Head of Economics Department, Toepfer International

***Grains and Oilseeds: A European Perspective***

---

1. Goals and Achievements of the Agenda 2000 Reform
2. The BSE Crisis and its Consequences
3. Future of the EU's Common Agricultural Policy

## ***Agenda 2000- Agricultural Policy Goals***

- Improve Competitiveness of EU Agriculture
  - ➔ domestically
  - ➔ on the world markets
- Further Shift from Price Support to Direct Payments

## ***Agenda 2000 Decisions for Grains and Oilseeds***

		1999/00	2000/01	2001/02	2002/03 <sup>1)</sup>	change 02/03 on 99/00
<b>Grain Intervention Price</b>	€/ton	119	110	101	101	<b>-15%</b>
	\$/ton	110	102	94	94	
<b>Direct Aid Grains</b>	\$/ha	231	250	268	268	<b>15%</b>
<b>Direct Aid Oilseeds</b>	\$/ha	429	348	308	268	<b>-38%</b>

1) to be reviewed in 2002

1 Euro (€) = 0.925 USD (\$)

## Agenda 2000

### Achievements for Grains and Oilseeds

- Π EU Domestic Prices Closer to World Market Level
- Π Increased Price Volatility in EU Domestic Market
- Π Domestic Use of Grain Increasing
- Π Less Grain Export Subsidies Needed
- Π Higher EU Imports of Quality Wheat Possible
- Π Acreage Limits on Oilseeds No Longer in Force
- Π Feed Pulses Loose Competitiveness

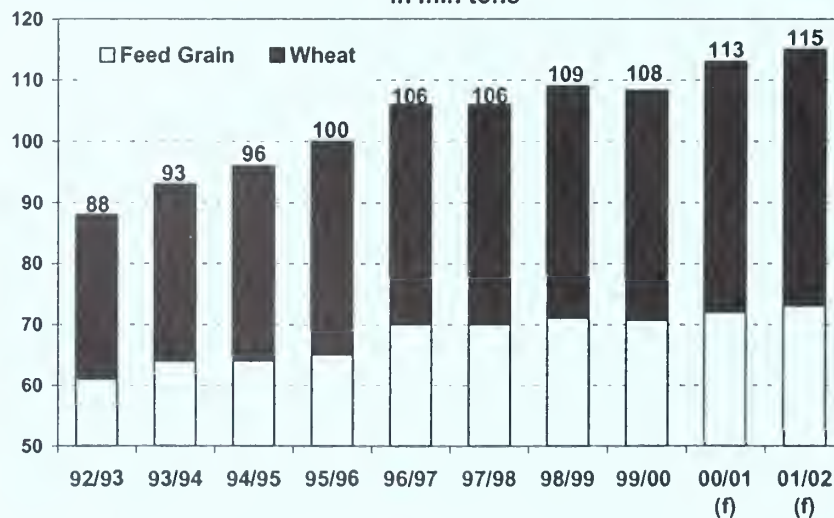
Washington D.C., February 23, 2001

Agricultural Outlook Forum 2001

Chart 5

## EU Feed Use of Grains

in mln tons

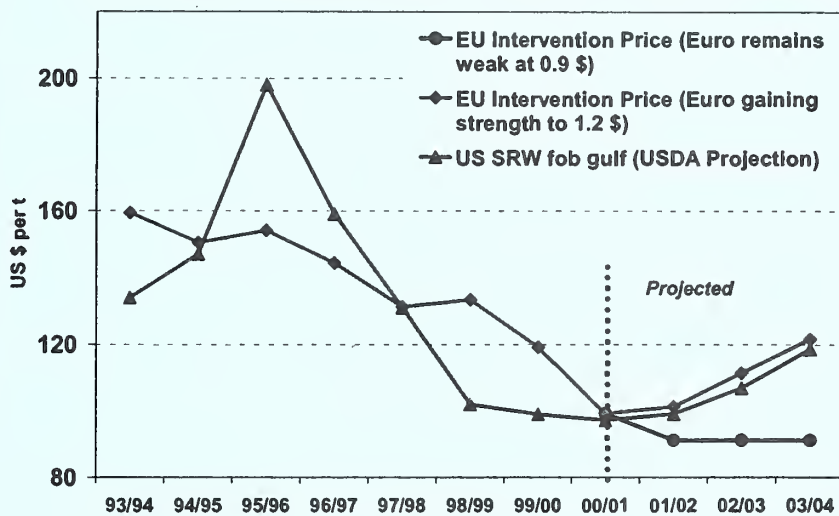


Washington D.C., February 23, 2001

Agricultural Outlook Forum 2001

Chart 6

## EU Grain Intervention Price and World Market



Washington D.C., February 23, 2001

Agricultural Outlook Forum 2001

Chart 7

## EU Grain Exports and WTO Limits

in mln tons

	1998/99	1999/00	2000/01	2001/02
Actual	27.5	34.0	27.0	29.0
WTO Limit	28.8	27.0	25.2	25.2

Washington D.C., February 23, 2001

Agricultural Outlook Forum 2001

Chart 8

## EU Grain Import Duty and Agenda 2000

		1999/00	2000/01*	2001/02**
		----- Average, in Euro/t -----		
<b>Durum</b>	HAD2	12.2	0.0	0.0
<b>Soft Wheat</b>	HRS2 14%	22.6	0.1	0.0
	HRW2 11.5%	61.4	14.9	1.0
	SRW2	75.6	40.2	26.3
<b>Corn</b>	YC3	81.8	52.3	38.4

\* Average up to Feb 2001

\*\* Intervention price cut 7.5%

all other determinants - prices, freight, exchange rate - assumed unchanged on 2000/01

Source: EU Official Journal, own calculation

## EU Oilseed Plantings and Blair House Limit

- **Maximum Guaranteed Area of 4.9 mln ha did not Restrict Oilseed Plantings During the Last Two years**

**Reasons: Low Oilseed Prices, Cut in Direct Payments**

**Agenda 2000: Oilseed Aids Minus 40% - Grains Plus 15%**

- **Development of Oilseeds Production Fully Dependent on World Market Prices**
- **From 20002/03 Same Aid Level for Oilseeds and Grains**

## **EU BSE Crisis and the Beef Market**

---

- **EU Beef Consumption Currently Down 25 to 50 %**
- **Reduction in 2001: At Least 15 %**
- **Many Countries Banned Imports of EU Beef and Cattle**
- **Beef Surplus in 2001 of Over 1 mln tons**
- **Up to 2 mln cattle to be Slaughtered for Destruction  
(equal to 1.5 – 2 % of cattle inventory)**
- **Meat & Bone Meal and Animal Fat in Milk Replacers  
most likely Source for BSE Transmission**

## **EU BSE Crisis – Immediate Consequences**

---

- **Ban on the Usage of Meat & Bone Meal Extended to All  
Animal Feed for Six Months from January to June**
- **Scientific Review whether a Complete Ban is Justified (to be  
completed in June)**
- **Export Ban for MBM**
- **Ban on Fish Meal for Ruminants**
- **Germany also Banned the Use of Fish Meal**
- **Ban on All Animal Fats in Germany**
- **All Cattle Older than 30 Months to be Tested for BSE**

## **Meat & Bone Meal Usage in the EU**

- **EU's MBM Usage in 2000: 2.4 mln tons**
- **MBM has more than 60% Protein**
- **2.4 mln tons of MBM are Equivalent to**
  - **3.0 mln tons of Hi-Pro Soymeal (48% Protein) or**
  - **14.2 mln tons of Wheat (11% Protein)**

## **BSE- Consequences for the EU Feedstuff Markets in 2001**

- **Cattle Inventory down 1 to 2 % (mid-year count)**
- **Total Industrial Compound Feed Output Only  
Slightly Down by 0.3 %**
  - **Cattle - 5 %**
  - **Hogs + 1 %**
  - **Poultry + 2 %**
- **Soybean Meal Consumption up 1 mln tons to 28 mln tons**
- **Grain Feeding up 3 mln tons**

## **BSE – Consequences for the EU Feed Industry**

- ➔ **Meat & Bone Meal Ban to Stay?**
- ➔ **Open Declaration**
- ➔ **Positive List**
- ➔ **No Antibiotics for Disease Prevention**
- ➔ **Quality Assurance Schemes**
- ➔ **Traceability**
- ➔ **Novel Feed (GMO)**
- ➔ **White Paper on Food Security**

## **BSE Crisis and Public Debate**

- ➔ **Consumers First**
- ➔ **Precautionary Principle**
- ➔ **„Class Instead of Mass“**
- ➔ **Strong Support for Organic Farming**
- ➔ **Minimum Quality Standards for Production, Processing and Trade (?)**
- ➔ **Budget**

## **Modifications in Support to Farmers (from 2003)**

---

- **Grain Intervention Prices to be Reduced Further (minimum 5 %), Partly Compensated by Higher Direct Aid Payments**
- **Degressivity of Aid Payments to be Introduced ?**
- **Shift Towards More Extensive Farming Practices**
- **Cross Compliance (minimum standards)**
- **Modulation**

## **Market Implications**

---

- ➔ **Grain Exports Without Subsidies to Become Normal**
- ➔ **Intervention a Pure Safety Net**
- ➔ **Feed Grain Use to Increase – Imports of NGFIs to Decrease**
- ➔ **Higher Conflict Potential in WTO, SPS**

## FUTURE SUGAR POLICY NEEDS – A VIEW FROM THE TRADE

Frank Jenkins  
President Jenkins Sugar Group, Inc.

I would like to thank John Love for asking me to speak, and thank all of you for your time and your attention. I have been asked to speak on futures sugar policy needs from the perspective of a member of the sugar trade. I should be clear that, while I spend my days working as an intermediary between sugar producers, processors, traders and industrial users and thus have what is hopefully a useful perspective, I am not, in fact, a “trader”. As a sugar brokerage, my company does not take title to sugar and does not take positions in the market. We are not risk takers. Given this, I will nonetheless attempt to describe what a trader might like to see from future sugar legislation.

Participants in the sugar trade do not tend to have a natural stance in the market place. While a producer of sugar is a natural “long” and a manufacturer of refined sugar from raw sugar or a manufacturer of finished goods is a natural “short” in the market, a trader works between these various groups. It is a natural component of a trader’s profile that he be a risk taker.

By this I mean that a trader’s role is, in part, to mitigate the market risk of producers, manufacturers and end users of sugar. The trader’s role is that of merchant and market maker. The trader is often a taker of price cover in up markets and a giver of price cover in down markets as customers seek price cover. Price risk, country risk, counter-party risk (in both up and down markets, by the way), foreign currency and interest rate exposure, quality risk, and freight rate risk are a trader’s lot in life by choice. I would argue, however, that the current sugar policy in the United States has dialed-up traders’ risk in an unmanageable way and to an intolerable level, and that current sugar policy, if left unchanged, will continue to heighten traders’ risk profile in the coming years.

You may ask yourself, why, should a trader’s comfort level be of concern to other market participants? The trade is sometimes viewed as opportunistic or even mercenary in their dealings. I would argue that the operator plays a seminal role in the workings of the US market. Over 23 % of our supply of raw sugar for domestic consumption comes from the 40 quota-holding countries. The trade provides the means to finance and freight these sugars from origin to the US. Through long term pricing contracts with their customers in the US, the trade facilitates not only the supply of sugar, but also an efficient means of managing the market risk related to those transactions in increasingly illiquid markets. Anyone who has pondered taking a foreign producer to arbitration in a foreign jurisdiction over a defaulted contractual obligation understands at least one small component of the service provided to the broader market by the trade.

Each day all of us make risk/reward calculations. I would argue that the sugar trade's risk/reward ratio would argue against participating in the US market at all, and that current sugar policy has played a major role in skewing that ratio. One need only look at the volumes traded on the New York Board of Trade Sugar # 14 contract, or count the number of traders currently involved in the US sugar market on a day to day basis for evidence of the trades reluctance to participate.

What follows is a brief, and surely incomplete, listing of issues confronting the sugar trade, which discourage trade participation in the market.

#### **Market access:**

**Quota** - The current list of quota holders is badly outdated, based as it is on the period from 1975 to 1981. Many quota-holding nations are net-importers. Through the WTO, the US has guaranteed access to 40 countries based on their historical percentage. Many of these countries are not consistent shippers, while others are extremely efficient and could provide supply to the market in a far more reliable and efficient manner. One way to address this in efficiency would be the adoption of a first-come, first-served quota scheme, which would significantly enhance the trades' ability to deliver raw sugar to the market in a more efficient manner. The USDA could still manage this flow through the use of quarterly shipping patterns.

**Mexico** – Currently Mexico has a quota of 116,000 tonnes, yet the US Trade Representative's office has not given out the Certificates of Quota Eligibility that are needed to actually bring these sugars into the US market. With each week and month that passes, the logistical impediments of moving 116,000 tonnes of Mexican sugar to the US grow more daunting. As long as a broader comprehensive sweetener agreement between the US and Mexico is pending, the prospect of significantly increased Mexican access overhangs the market. How can anyone seeking to manage risk do so when we this important piece of the supply puzzle remains missing? It would be in the trade's interest to have this matter resolved, one way or the other.

#### **Administrative issues:**

The USDA publishes its **World Agricultural Supply and Demand Estimate** (WASDE) for sugar monthly, and this report represents, arguably, the most useful gauge of the market's prospects for a trader. In fact, the basis for the USDA's management of the Tariff Rate Quota is the ending stocks/use ratio as reported in the monthly WASDE. Due to the fact that the CCC is holding massive stocks, the ultimate disposition of which remains a mystery, ending stocks are not known within 793,000 tons. Based on the February report, actual accessible ending stocks are somewhere between 1.234 million tons and 2.027 million tons. The ending stocks to use ratio is somewhere between 19.4 % and 11.8 %. Taking steps immediately to clarify the disposition of these stocks would clarify the supply and demand picture, allowing for better decision making.

In the last year the market has been buffeted by a series of **market-distorting events**. For companies seeking to manage risk, these events add a further element of uncertainty. The following chronology of events serves to underscore this. I should point out that none of the following are necessarily good or bad; necessary

or unnecessary; appropriate or inappropriate. They are simply actions taken by the USDA as part of its routine management of the sugar program, or actions taken in reaction to some shortcoming in the program or its management. Each of these had some impact on prices and thus on traders' risk profile.

**September:** Nothing happened. The TRQ announcement, normally made by September 15, is not made by September 30, 1999, leaving the market with no access to foreign supply as the new quota year begins. Various government agencies struggled over the recourse/non-recourse loan issue, precluding a timely announcement.

**October:** A waiver is granted, allowing California and Hawaiian Sugars to import 100,000 tons of sugar immediately and to export a like amount of sugar over a five-year period. The waiver is needed to prevent C&H from running out of sugar.

**November 2:** Quota is finally announced. Even now, 227,000 tonnes are left unallocated. While in the past, a clear program was detailed by which the quota would be allocated; the announcement stated simply that the USDA would make the sugars "available to the USTR, if needed, as the administration reviews market conditions and the operation of the sugar program".

**December:** It is announced that the time period for the export of sugars under the C&H waiver amended from five years to 180 days.

**February:** C&H waiver amended from 180 to 210 days. The announcement also states that the USDA will accept CQE's for retirement in lieu of exports by C&H.

**May 11:** USDA announces that it will purchase 150,000 tons of sugar and that additional purchases will be considered depending on market prices and conditions.

**June 3:** CCC actually purchases 132,000 tons of sugar from the industry.

**July 25:** Secretary Glickman addresses reporters, stating that he is considering authorizing another round of sugar purchases.

**July 31:** 44,940 tons refined sugar (raw value) forfeited.

**August 21:** FSA announces details of a Payment in Kind (PIK) program for sugar, the first of its kind for sugar.

**August 31:** 60,188 tons of refined sugar (raw value) and 50,281 tons of raw sugar raw value are forfeited.

**September 19:** USDA announces preliminary results of PIK program. More than 5,000 farmers offer to divert about 100,000 acres against 277,349 tons of refined sugar from CCC stocks. The title to these sugars will be transferred to assignees between October 1 and December 31, according to the announcement.

**September 31, 2000:** 534,277 tons of whites (raw value) and 269,307 tons of raws are forfeited to the CCC. CCC inventory jumps to 1.1 million tons raw value.

Lets look at this in sum. In rough numbers, the entire quota was delayed, 227,000 tonnes were left unallocated, the west coast waiver impacted 100,000 tonnes, 132,000 tons were purchased and 968,000 tons were forfeited. Thus, the flow of roughly 2.5 million tonnes of sugar – nearly 25 % of all sugar either domestically produced or imported last year - was affected (interrupted, impeded or precluded altogether) due to the program's faults or inadequacies. For traders attempting to

judge a market with an eye on risk management, such constant intervention makes the process hopelessly complex.

What, from a trader's perspective, would be desirable in the context of futures policy needs? A look back at the intent of the current program will prove enlightening.

The program is currently set up to accommodate a minimal quota as per the WTO, and supplemental tranches, which can be allocated based on needs. If at prescribed moments in time the ending stocks/use ratio for the given fiscal year is at or less than 15.5 % after the additional sugars had been considered, the USDA would direct the US Trade Representative to allocate the tranche. While this approach, which clearly borders on micro-management of the TRQ, may be cumbersome there is at least a level of predictability to it. Traders would prefer no intervention at all, but scheduled or predictable intervention is the next best option.

This administrative approach, while theoretically still in place, is in reality no longer viable. The growth seen in the domestic crop, the partial opening of the US market to foreign supply through the NAFTA and the sharp increase in over-quota imports in the form of sugar containing products and syrups have taken control of the market away from the USDA. The regimented approach to managing the quota has been replaced by a series of either pre-emptive or reactionary moves.

At the excellent sessions earlier today, we heard the views of a beet grower, a processor and a marketing firm. While each of these industry segments has a vested interest in the shape of US domestic sugar policy, those in the trade ask only for a policy that is not inherently dysfunctional. All that the trade can ask is that sugar policy evolve and adapt to the current realities. By 2008, we will have an open border with Mexico, and it is likely that Mexican imports will profoundly impact our market years before then. If the US sugar policy and resultant program is so dated that it can only be run through crisis management, a trader would ask that the USDA take whatever actions are necessary to bring the market back under control.

The best of all worlds for the sugar trade would be a market completely free from intervention. While this is not realistic given that only a small percentage of world sugar trade is not either subsidized or protected in some way, a market that is well enough structured that it can be managed in a rational, thoughtful manner should not be too much to ask for.

# HOW WILL RURAL AMERICA, AGRIBUSINESS AND GOVERNMENT ADAPT TO STRUCTURAL CHANGE? IMPLICATIONS FOR GOVERNMENT PROGRAMS\*\*

Dr. Marc A. Johnson\*

The roles of government are three: a) to design and implement social contracts for fairness and safety among citizens and secure commerce, b) to produce public goods for society in which capture of financial returns to investment are either difficult, expensive, or too exclusionary, and c) to otherwise assist the private sector in being sleek and competitive worldwide. Ease and low cost access to knowledge and commerce on the internet and easy mobility of capital and labor are making some governmental services less relevant.

However, public goods are still public goods and social contracts are still an expression of culture, so governmental institutions will remain engaged. The key criterion to judge the effectiveness of governmental services will be: value added. An important element of context within which governmental programs will change is a society which is restless, untrusting, and tired of the pace of change. Groups are quick to promulgate, and large segments of citizens are quick to adopt, fear of change and questions of the definition of progress surrounding issues of genetic improvement, efficiently sized companies, and communication technologies.

To assist me in addressing a number of governmental programs across a broad spectrum, Time magazine's "winners and losers" dichotomy is used. A "winner" is an area of governmental programs which likely will grow in importance; a "loser" is an area which likely will decline. Items mentioned are in three categories: a) economic policy, b) producer and consumer protection, and c) information and marketing.

## Economic Policy

Winner: Monetary policy. Stability of the general economy is essential to a stable commercial environment. Control of stable interest rates, inflation, and growth through monetary policy mechanisms have proven effective since 1979. The farm crisis of the early 1980's was the price paid for undisciplined monetary policy prior to 1979.

Loser: Fiscal policy. A large tax reduction is proposed. Tax cuts in 1964 and 1982 proved to have substantial economic stimulus value. However, the focus of tax cuts seldom dwells long on economic purpose, but focus shifts quickly to engineering income distribution.

Winner: The Freedom to Farm mechanism. Decoupling farm payments from specific commodity production allows producers to try new crops, rotate crops, and seek income

\*Dr. Marc A. Johnson is Dean of the College of Agriculture and Director of the Agricultural Experiment Station and Cooperative Extension Service at Kansas State University, Manhattan, Kansas.

\*\*Presented at the USDA Agricultural Outlook Forum 2001, Arlington, VA, February 23, 2001.

more creatively in the market place. The mechanism itself permits a risk control mechanism through enterprise diversification.

Loser: Commodity price supports and loan rates. We have learned in the last two years that weak international markets are a disaster for domestic farm prices. We learned in the early 1980's that high loan rates encourage production but locked commodities in storage, and encouraged the rest of the world to clear land for competitive grain production. Commodity price supports and high loan rates distort the market and imperil U.S. competitiveness.

Winner: Farm income support. Farm business survival and food security are social contract issues for policy resolution, independent of commodity markets. Governmental policies and programs will be active in this area.

### Producer and Consumer Protection

Winner: Courts and Mediation Services. Contract law is well established and enforcement through the courts will be active in disputes between participants in the food chain. Mediation services will be enhanced to reduce litigation time and cost.

Loser: Administrative Contract Protection. Administrative contract law protection would create a new bureaucracy, invite disputes, and yield uneven enforcement, and results would end up in the courts anyway.

Winner: EPA and FDA. The interests of consumer protection and production protection will converge. Consumers, as a population, want a clean environment, safe food, and protection from errant genetic experiments. Producers want a consuming public which is confident that their food comes to them in a safe and environmentally responsible manner. Compromise for practical regulation is a growth enterprise which will build the reputation of the food system.

Loser: Comprehensive inspection. These services are expensive and less than effective.

Winner: HACCP. Hazard analysis at critical control points follows total quality management principles aimed at zero defects. Establishing safety systems with monitoring at critical process points focuses on prevention. Self regulation, once HACCP systems are in place with quality control staff, are reinforced by the extreme cost of product recalls and public relations if the system fails.

Winner: Private risk management tools. The marketplace is flexible and efficient in creating risk management tools useful for producers and agribusiness if public bodies don't preempt the market. Futures markets, contracts, insurance, partnerships, diversification, and mergers are among many private forms of risk control.

Loser: Public risk management tools. Public institutions, by the procedures of changing laws and regulations and lacking price incentives, are not flexible to provide variety or responsiveness of risk management tools. Regionalism and income distribution, again, enter into political determinations of risk management tools.

Winner: Worldwide labor protection. Child and adult labor protection standards enforcement will increase worldwide as consumers become more conscious of the way people are treated who produce their products. This governmental enterprise will grow in the U.S.

Loser: Immigration control. The holes in the immigration sieve at U.S. borders will enlarge to meet the increasing demand for processing and distribution labor. Social programs will catch up to the new immigration stream recognizing the needs of education, health care, and family services.

### Information and Marketing

Winner: Pre-technology and public good research. Basic biological, chemical, engineering, and economic sciences, including genomics, will remain (some would say, move back) to the public sector. The large biological companies are finding the length of time to discovery to be too long and risky for commercial success. Research for which economic returns are not capturable include such work as the environment, food safety, climate change, public policy, and others.

Winner: Public education and extension. Public education at land grant universities and other public universities will remain the primary source of graduates and new scientists. The undergraduate function will keep a land grant university in every state. Extension will remain important but its functions will diverge. In production and processing agriculture, extension will provide deeper scientific and economic education and be responsible for democratizing knowledge flow across the spectrum of firm size. In youth, community and family areas, extension will be an important education partner with service agencies across the rural-urban divide.

Loser: Service and support programs. Governmental service and support programs will find it difficult to be as responsive to change and provide confidential services as private sector service firms. Farms, cooperatives, and other agribusinesses have shown an increasing willingness to pay for expertise to provide specific answers to specific issues. Providing descriptive studies and general recommendations no longer provide sufficient added value to retain their demand.

Loser: Micromanagement of research and education. Finely tuned, governmental management of specific research and extension projects, plans of work, and resource allocation are no longer required to protect the public interest or to assure proper focus. As science becomes more fundamental and extension more scientific and locally specific, oversight agencies will not maintain qualifications to judge appropriateness of programs.

Scientific peers and local clientele will provide these judgments more effectively. State governments invest more in base funds for research and education than the federal government does in land grant universities; management and control can shift to the states.

Winner: Market news. Unbiased sources of market news will continue to have important roles providing comprehensive information about the marketplace and democratizing access to this information across the spectrum of firm size.

Loser: Descriptive studies. Descriptive studies of general interest do not add value to decision-makers.

Winner: Hard core price and statistical analysis. Hypothesis testing analysis results in very useful information on causation of price and margin changes, policy impacts, and intervention effectiveness, e.g., environmental or food safety interventions.

Winner: Collaboration and Merger. Merger of research and education entities connects the continuum of generation and dissemination of knowledge. Collaboration among research and education governmental agencies builds synergies, stimulates knowledge growth, reduces duplication, and reduces overhead and transaction costs. Collaboration among public and private entities strengthens technology transfer and the feedback between commercialization of technology and pre-technology science.

## Conclusion

The roles of government and the private sector are clarifying. Government policy processes generate agreements on social contracts and tools to implement these contracts. Government programs for the generation and dissemination of knowledge can contribute to international competitiveness for private sector firms of all sizes. Government programs for consumer and environmental protection can have major benefits for the confidence consumers have in the production and agribusiness sectors. The private sector is taking over the roles of product development, commercial services, and risk control.

**HOW WILL RURAL AMERICA,  
AGRIBUSINESS AND GOVERNMENT ADAPT  
TO STRUCTURAL CHANGE?**

**Implications for Government  
Programs**

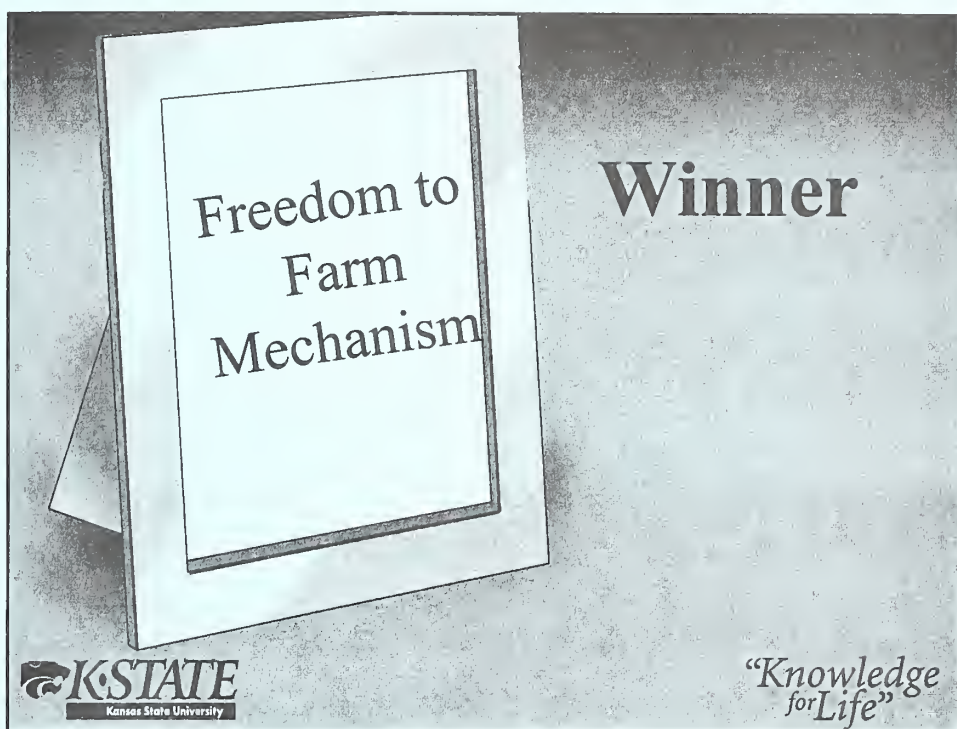
**Dr. Marc A. Johnson  
Kansas State University**

**USDA Agricultural Outlook Forum  
February 23, 2001**

**ROLES OF GOVERNMENT:**

- **social contracts**
- **public goods**
- **assist private sector**



A graphic of a white sign with a black border, standing on a black base. The sign is tilted slightly to the right. The text on the sign is "Freedom to Farm Mechanism". To the right of the sign, the word "Winner" is written in a large, bold, serif font. In the bottom left corner is the KSTATE logo, and in the bottom right corner is the phrase "Knowledge for Life" in a script font.

Freedom to  
Farm  
Mechanism

**Winner**

**KSTATE**  
Kansas State University

*"Knowledge  
for Life"*

A graphic of a white sign with a black border, standing on a black base. The sign is tilted slightly to the right. The text on the sign is "Commodity Price Supports and Loan Rates". The sign is surrounded by several small, white, torn paper fragments. To the left of the sign, the word "Loser" is written in a large, bold, serif font. In the bottom left corner is the KSTATE logo, and in the bottom right corner is the phrase "Knowledge for Life" in a script font.

**Loser**

Commodity  
Price  
Supports  
and  
Loan  
Rates

**KSTATE**  
Kansas State University

*"Knowledge  
for Life"*



**Loser**

**Administrative  
Contract  
Protection**



*"Knowledge  
for Life"*

**EPA  
and  
FDA**

**Winner**



*"Knowledge  
for Life"*

# Loser

Comprehensive  
Inspection



*"Knowledge  
for Life"*

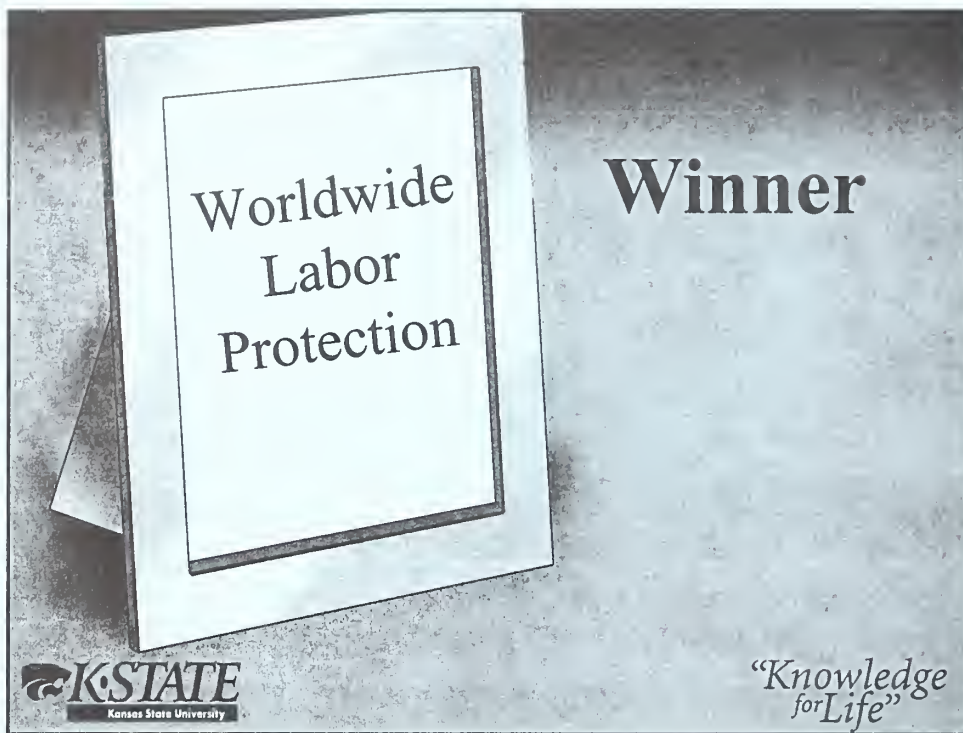
# Winner

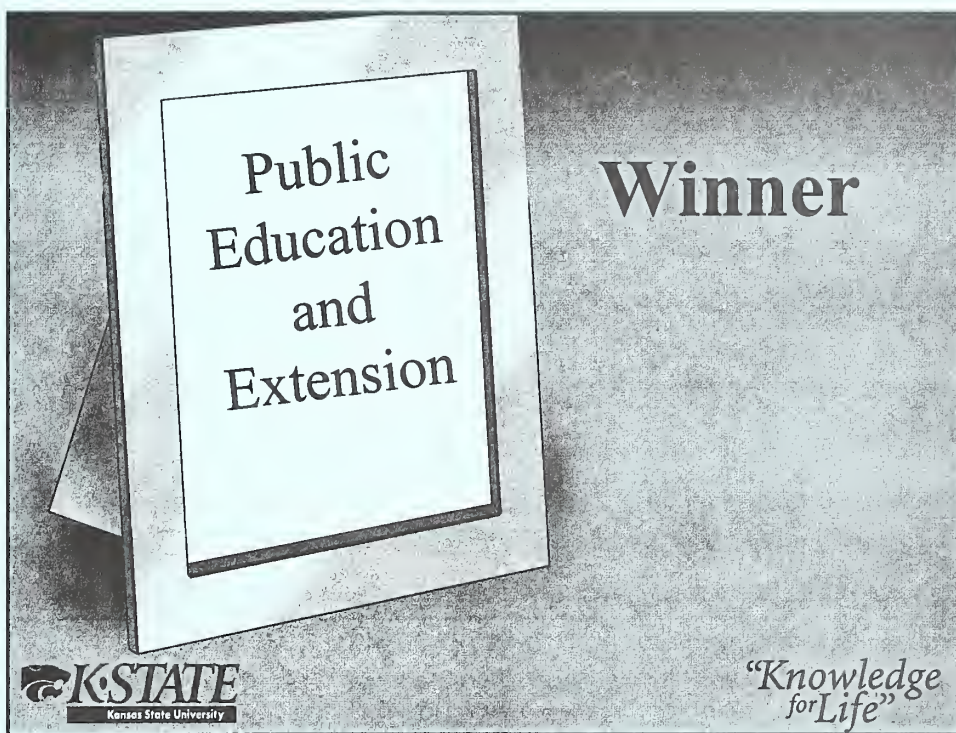
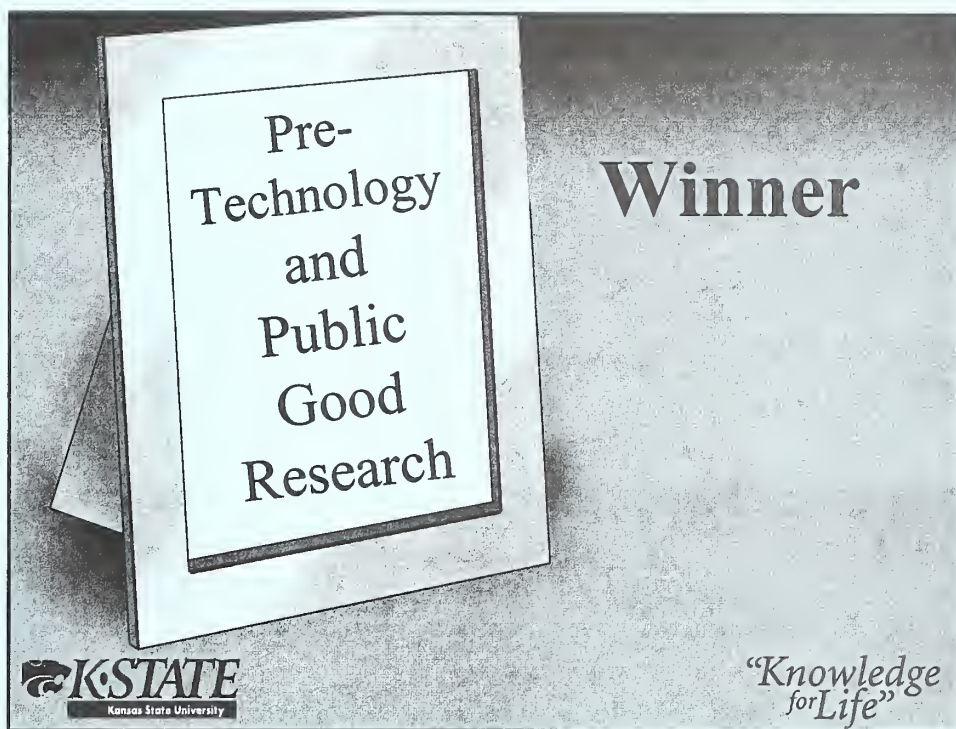
HACCP



*"Knowledge  
for Life"*







# Loser

Service  
and  
Support  
Programs



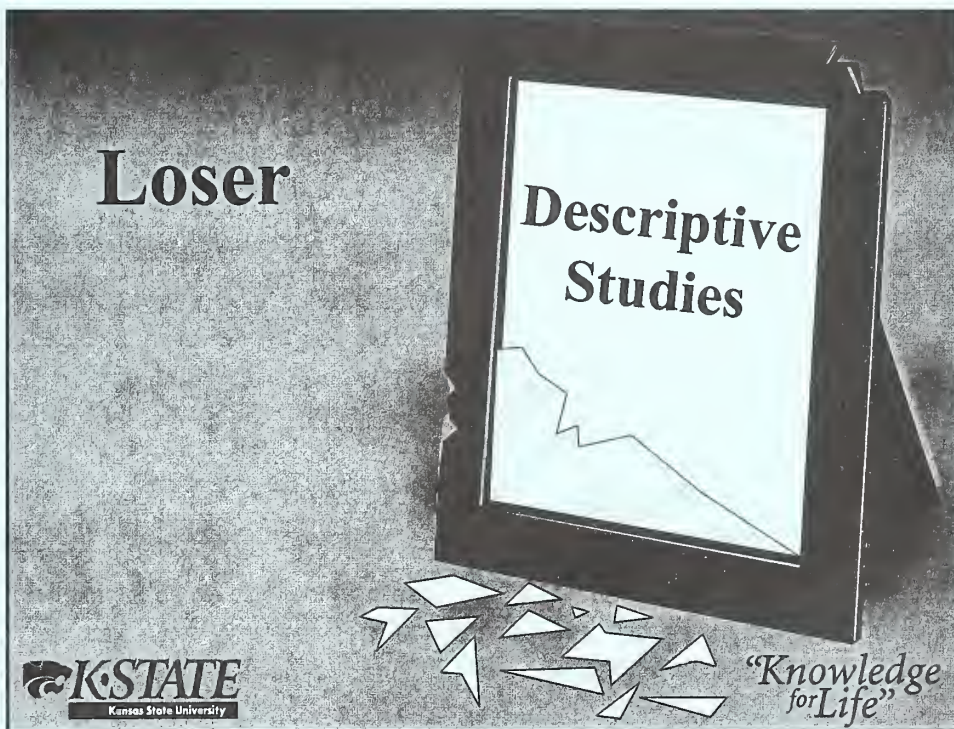
*"Knowledge  
for Life"*

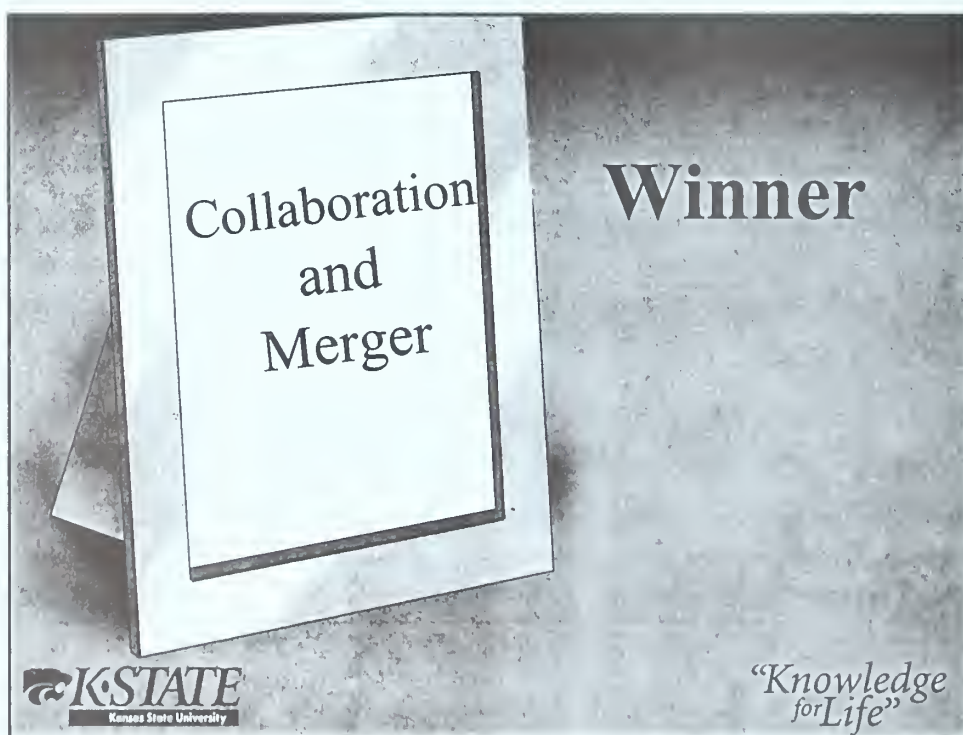
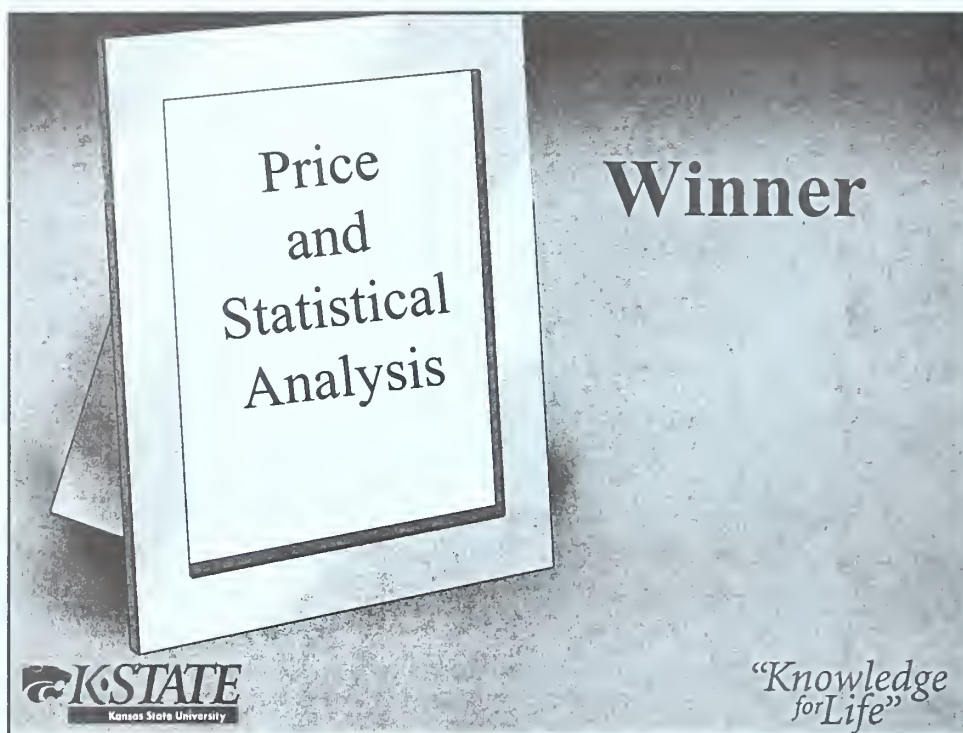
# Loser

Micro-  
management  
of  
Research  
and  
Education



*"Knowledge  
for Life"*





## Conclusion

### **Clarifying Roles for Governmental and Private Sectors**

